

The Hotel Operator Fee Stack Decoder

An Owner-First Guide to Finding Hidden Economics in Hotel Management Agreements

Crafted for: Hotel owners • Investors • Asset managers • Developers

What this is: A practical decoder to identify where value leaks through the operator “fee stack” beyond the base fee and how to structure transparency, alignment and governance.

What this is not: A legal opinion or jurisdiction-specific advice.

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Use of examples and numbers

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How to Use This Decoder (The 60-Second Method)

Use this tool the same way an asset manager scans an operator term sheet: don't start with the headline base fee - start with the "stack".

01

Build the Fee Stack (2 minutes)

List every operator and brand charge under these headings: Base • Incentive • Marketing • Distribution • Loyalty • Central/System • Technology • Procurement • Accounting/Shared Services • HR/Training/Compliance • Pre-opening • Misc. pass-throughs

03

Demand Minimum Transparency (2 minutes)

For each line item, insist on: • Pricing basis + rate • Metric definition (what exactly is being measured?) • Reporting source (what report proves it?) • Allocation method (if shared) • Audit rights (workable in practice)

02

Test for "Hidden Economics" (3 minutes)

Ask three questions:

1. Is this charge mandatory or optional - and who decides?
2. Is it "at cost" or "cost-plus" - and can we verify the underlying cost?
3. Is there any double-dipping (fees charged twice for the same activity/value)?

04

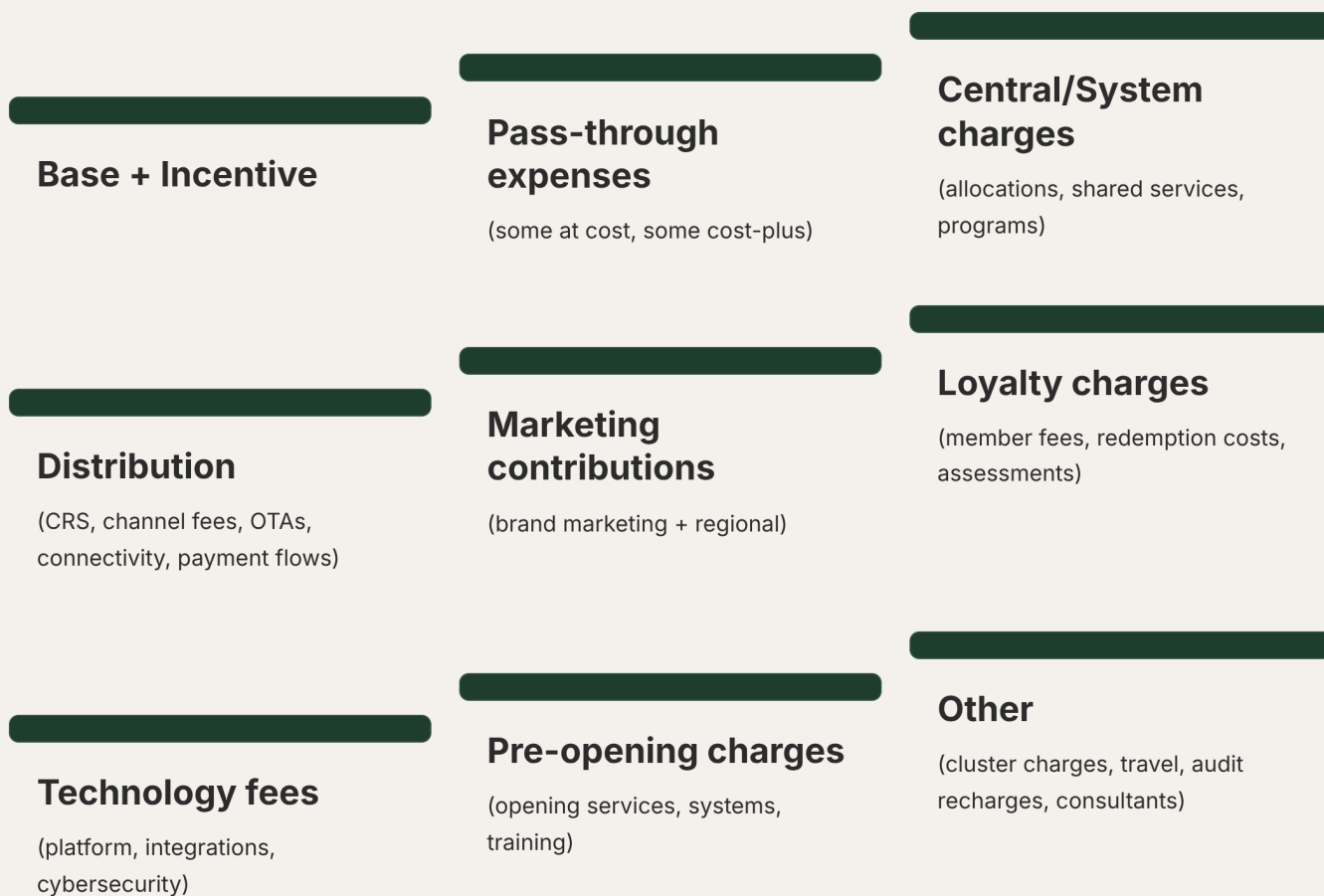
Governance, not confrontation (ongoing)

Most fee disputes are governance failures, not bad intent. Solve with definitions, caps, exclusions, reporting and audit mechanics. Not operator bashing.

OWNER ADVANTAGE: If you can make the fee stack measurable, comparable, and auditable, you can negotiate it — and you can manage it.

The Fee Stack Map (How Operator Economics Actually Show Up)

Think of operator economics as a layered stack:



DEAL NOTE: Owners rarely lose value on the base fee alone. Value leakage tends to come from: (i) opaque allocations, (ii) duplicated charges, (iii) mandatory programs with weak proof of benefit and (iv) "cost-plus" without visibility.

The Fee Stack At-A-Glance

Use this table as a deal meeting scan to quickly identify where each fee category appears and what to focus on.

Category	Typical pricing basis	Where it hides	Owner focus
1. Base	% Total Revenue	easy to spot	definitions + ramp + exclusions
2. Incentive	% GOP/NOI/etc.	calculation mechanics	profit definition + capex treatment
3. Marketing	% Rooms Rev / per room	"brand contribution"	what it funds + governance
4. Distribution	% bookings / per booking / % Rooms Rev	blended in channel costs	effective cost + disclosure
5. Loyalty	per booking / % Rooms Rev / assessments	bundled with CRS	member economics + proofs
6. Central/System	% revenue / cost allocation	"shared services"	allocation basis + caps
7. Technology	per room/month / per booking	"system fees"	mandatory vs optional + transparency
8. Procurement	mark-ups + rebates	invisible leakage	disclosure + rebate treatment
9. Accounting/Shared	allocation / cost-plus	"recharges"	service scope + benchmarking
10. Training/HR/Compliance	program fees / allocation	bundled in central	proof of scope + measurables
11. Pre-opening	fixed + pass-through	project budget	scope + caps + approvals
12. Misc pass-throughs	cost-plus / at cost	travel, audits, cluster	rules + receipts + limits

1. Base Management Fee

What it is (plain English)

The operator's recurring management fee for running the hotel, typically the most visible fee line.

Common pricing basis

- % of Total Revenue (most common)
- % of Gross Revenue (definition matters)
- Occasionally tiered by revenue bands or ramped in early years

Why it matters to owners (value impact)

Small basis differences create long-term value drift. If "Total Revenue" includes pass-through or non-hotel income streams, the base fee can unintentionally inflate.

Red flags / watch-outs

- "Total Revenue" defined too broadly (including taxes, service charge, third-party revenues)
- Fee charged on non-operating receipts or reimbursables
- No ramp-up or relief during stabilisation
- Base fee payable during full closure without clear logic
- Base fee calculated before agreed exclusions are applied

Owner levers

- Tight definition of Total/Gross Revenue (exclude taxes, gratuities, pure pass-throughs)
- Ramp-up structure (opening years) tied to realistic stabilisation
- Suspension/reduction logic during full closure or force majeure (deal-dependent)
- Clear reconciliation process and right to review the base metric

Questions to ask operators (5)

1. What exactly is included in "Total Revenue" in your definition?
2. Are taxes, service charges, gratuities and pass-through receipts excluded?
3. How is revenue treated where the hotel is only an agent (e.g., certain third-party sales)?
4. Is the base fee reduced during full closure and on what conditions?
5. What report (and system source) is used to calculate the base fee each month?

Minimum reporting / invoicing

- The definition excerpt used for calculation
- Monthly revenue report source (PMS/finance)
- Reconciliation showing exclusions applied (if any)
- Clear period, rate and calculation line

OWNER WATCH-OUT: If you can't define the base fee metric cleanly, you won't be able to govern the rest of the stack.

2. Incentive Fee

What it is (plain English)

A performance-based fee intended to align operator incentives with profitability (but alignment depends on the profit definition).

Common pricing basis

- % of GOP (or adjusted GOP)
- % of NOI / NOP / "Operating Profit"
- % above an owner priority return / hurdle (more owner-aligned)

Why it matters to owners (value impact)

Incentive fees can be highly material, but misalignment can occur if operators prioritize fees over sustainable profit by shifting costs or manipulating Capex/Opex.

Red flags / watch-outs

- Profit definition allows excessive management add-backs
- Capex/FF&E treatment is unclear (repairs vs capital)
- Budget-based tests without objective controls
- Incentive fee paid despite underfunded FF&E reserve
- Incentive mechanics ignore owner capital cost and risk

Owner levers

- Use a clearly defined profit metric (and consistent accounting standard)
- Consider an owner hurdle / priority return before incentive accrues
- Define adjustments and add-backs narrowly
- Ensure profit calculation is auditable and linked to agreed reporting
- Consider caps or bands if appropriate (deal-dependent)

Questions to ask operators (5)

1. What exact profit definition applies, and what add-backs are permitted?
2. How are brand program costs and system charges treated in the profit line?
3. How is capex vs opex classification governed and disputed?
4. Is there an owner hurdle, and how is it measured?
5. Can you provide a worked example from a comparable hotel?

Minimum reporting / invoicing

- Profit bridge from revenue to incentive base
- Schedule of add-backs/adjustments with definitions
- Reference to the accounting standard used
- Monthly + YTD calculation and supporting financial statements

OWNER ADVANTAGE: The incentive fee is only "aligned" if the profit definition is disciplined, transparent and hard to game.

3. Marketing / Brand Contribution

What it is (plain English)

A contribution to brand-level marketing (and sometimes regional marketing) intended to drive demand.

Common pricing basis

- % of Rooms Revenue (typical)
- % of Total Revenue (less common; needs scrutiny)
- Fixed fee or minimum contribution in early years (sometimes)

Why it matters to owners (value impact)

Marketing spend can be legitimate value creation but owners often lack visibility on what the contribution funds and how benefits are measured.

Red flags / watch-outs

- Vague scope ("brand marketing" without program detail)
- Double-charging (separate "marketing" plus "distribution" plus "loyalty" without clarity)
- Mandatory participation with no governance or reporting
- Marketing charged on revenue streams unrelated to brand demand generation
- No distinction between brand marketing and property marketing

Owner levers

- Define what the contribution funds (brand, regional, digital, PR, etc.)
- Require annual program plan summaries and reporting metrics
- Clarify any mandatory agency or platform fees
- Ensure property-level marketing budgets remain under owner governance
- Require separation of brand marketing vs distribution mechanics

Questions to ask operators (5)

1. What programs are funded and what reporting will we receive?
2. Is any spend specific to our region/cluster, or purely global?
3. How is spend allocation determined across hotels?
4. How do you measure effectiveness (not just activity)?
5. Can we opt out of specific programs, and what is the consequence?

Minimum reporting / invoicing

- Annual program summary + key metrics
- Property-level line item showing rate and basis
- Evidence of calculation base (Rooms Revenue definition)

4. Distribution / Reservations / Channel Fees

What it is (plain English)

The cost of the brand's distribution engine: CRS, channel connectivity, reservation services and sometimes payment and platform charges.

Common pricing basis

- % of room bookings or rooms revenue
- Per booking / per reservation
- Per channel transaction / connectivity fees
- Blended fees tied to the reservation system

Why it matters to owners (value impact)

Distribution costs can rival or exceed base fees in total impact. They also hide the biggest "effective rate" problem: multiple charges applied to the same booking.

Red flags / watch-outs

- Multiple overlapping charges (CRS + channel + "platform" + payment costs)
- No clarity between "brand direct" vs OTA economics
- Mandatory preferred programs without clear ROI logic
- Fees calculated on gross room rate including taxes/fees (definition issue)
- No consolidated distribution cost reporting

Owner levers

- Demand a consolidated view of total distribution cost (all-in)
- Define booking/revenue bases clearly and exclude taxes where appropriate
- Require reporting by channel: direct, brand direct, GDS, OTA
- Governance: approvals for paid placement programs and channel mix levers
- Benchmark distribution cost as a % of rooms revenue over time

Questions to ask operators (5)

1. What is the total "all-in" distribution cost (fees + commissions + connectivity)?
2. What charges apply to the same booking and why?
3. How are OTA programs and preferred placements governed and approved?
4. What reports will show channel mix and effective cost per channel?
5. What levers do we have to control distribution cost over time?

Minimum reporting / invoicing

- Monthly channel mix and cost report (by channel)
- Clear definitions of "booking," "room night," "rooms revenue"
- Invoice line items tied to supporting system reports

5. Loyalty Program Charges

What it is (plain English)

Charges associated with participation in the brand's loyalty ecosystem, including member acquisition, points/benefits and program administration.

Common pricing basis

- Per member booking / per stay
- % of rooms revenue tied to eligible bookings
- Points redemption chargebacks
- Program assessments

Why it matters to owners (value impact)

Loyalty can drive demand and pricing power, but owner economics depend on redemption cost allocation and whether the program genuinely displaces paid channels.

Red flags / watch-outs

- Loyalty fees layered on top of distribution charges without clarity
- Redemption costs that are hard to forecast or verify
- No reporting on member share, acquisition cost and net contribution
- Program changes that increase cost without owner governance
- Loyalty economics that cannibalise direct bookings rather than replace OTAs

Owner levers

- Require reporting on member contribution, ADR uplift, and channel displacement
- Define redemption chargeback rules and reporting
- Governance for program changes that materially affect cost
- Clarify whether loyalty fees apply to all bookings or only member bookings
- Benchmark loyalty costs versus acquisition benefits

Questions to ask operators (5)

1. How are points and redemptions funded and charged back?
2. What reporting will we receive on member share and net contribution?
3. How do you prevent loyalty from simply adding cost without displacement?
4. What fees apply per member booking and where are they invoiced?
5. What changes can the operator make unilaterally to the program terms?

Minimum reporting / invoicing

- Member booking share, redemption volume, chargeback schedule
- Clear basis and rate per category of loyalty charge
- Reconciliation to system reports

6. Central Services / "System" Charges

What it is (plain English)

Charges for shared services and brand platform support, often allocations across the operator's system.

Common pricing basis

- % of total revenue or rooms revenue
- Cost allocation formula (property share)
- Cost-plus with administrative mark-up

Why it matters to owners (value impact)

This is the classic "hidden economics" zone: opaque allocations can drift upward over time and are hard to challenge without defined transparency and audit rights.

Red flags / watch-outs

- No visibility into allocation method or underlying cost base
- "Cost-plus" without proof of cost or service levels
- Mandatory services not linked to measurable deliverables
- Charges that overlap with technology, accounting, HR or marketing
- No cap, no benchmarking and weak audit scope

Owner levers

- Mandatory vs optional clarity (and what "optional" really means)
- Allocation methodology disclosure and annual revalidation
- Audit rights that include underlying schedules and allocation logic
- Caps and/or benchmarking triggers for review
- "No double-dipping" principle across central, tech, accounting and HR

Questions to ask operators (5)

1. What is included, what is excluded and what overlaps elsewhere in the stack?
2. How is the allocation calculated and updated over time?
3. What supporting schedules can we receive routinely?
4. Are any mark-ups applied and if so, why and how measured?
5. Can we benchmark or cap categories that are not property-specific?

Minimum reporting / invoicing

- Allocation schedule + methodology summary
- Service scope description (deliverables)
- Clear line-item mapping to categories (no lump sums)

OWNER WATCH-OUT: If the agreement is vague on definitions and reporting, disputes become opinion-based — and value leakage becomes hard to prove.

7. Technology Fees (PMS/CRS, Cybersecurity, etc.)

What it is (plain English)

Charges for the operator's technology platform: systems, integrations, connectivity, reporting tools, cybersecurity controls and support.

Common pricing basis

- Per room per month
- Per booking / transaction
- Fixed annual fee + pass-through vendor charges
- Cost allocation across the brand system

Why it matters to owners (value impact)

Technology costs can become "permanent overhead" and increase through upgrades. Exit readiness also depends on data access and transition mechanics.

Red flags / watch-outs

- Mandatory systems with limited transparency on vendor cost vs margin
- Upgrades imposed without budget governance
- Weak service level clarity (what do we actually receive?)
- "Platform fees" that overlap with distribution and central services
- No clear data portability and cutover support on termination

Owner levers

- Define mandatory vs optional components; require pricing schedules
- Tie major upgrades to budget approval or objective triggers
- Require service descriptions and reporting access standards
- Data access and transition obligations clearly defined
- Cyber incident cooperation obligations and cost allocation principles

Questions to ask operators (5)

1. Which systems are mandatory and what are the charges per module?
2. What vendor costs sit underneath and how are mark-ups handled?
3. What reporting access do we receive (and in what format)?
4. What are the termination cutover obligations and timelines?
5. How are cyber incidents handled and reported and who pays for what?

Minimum reporting / invoicing

- Itemised tech schedule (modules, basis, rates)
- Vendor pass-through support where applicable
- System access and reporting entitlements documented

8. Procurement / Purchasing / Rebates & "Hidden Margin"

What it is (plain English)

The economic effect of purchasing programs: vendor pricing, mark-ups, rebates, commissions, volume incentives and related-party supply.

Common pricing basis

- Mark-ups on goods/services
- Program fees / allocations
- Vendor rebates and incentives (often not visible unless disclosed)

Why it matters to owners (value impact)

This is where small percentages quietly compound over years. Even well-run procurement can create misalignment if rebates are retained without disclosure and owners still pay program fees.

Red flags / watch-outs

- No disclosure of related-party vendor arrangements
- Rebates retained without transparency while procurement fees are charged
- Mandatory vendor programs priced above local market equivalents
- No audit rights into rebate structures and vendor economics
- "Cost-plus" purchasing with limited proof of underlying cost

Owner levers

- Disclosure obligations for related parties and rebate frameworks
- Clear policy: how rebates are treated (credited, netted, retained with justification)
- Benchmarking and competitive bid thresholds
- Audit rights that extend to vendor schedules where relevant
- Avoid double charging (program fee + rebate retention) without transparency

Questions to ask operators (5)

1. Are any vendors affiliates or preferred partners and what is disclosed?
2. What rebates or incentives exist and how are they treated?
3. What procurement fees apply in addition to vendor economics?
4. What bidding thresholds and approval rights apply to major contracts?
5. What audit access will we have to validate pricing and rebates?

Minimum reporting / invoicing

- Policy disclosure: rebate treatment and related-party rules
- Program fee schedule and what it covers
- Supporting documentation for major vendor charges (as agreed)

9. Accounting / Finance / Shared Services

What it is (plain English)

Charges for back-office finance support: accounting, reporting, payroll support, AP/AR processes, treasury functions and shared service centres.

Common pricing basis

- Cost allocation (property share)
- Fixed monthly fee
- Cost-plus with admin mark-up

Why it matters to owners (value impact)

Finance recharges can become "untouchable overhead" unless scope, service levels and allocation logic are defined.

Red flags / watch-outs

- Lump-sum recharges with no scope or service detail
- Overlap with central services charges
- No performance/service metrics (speed, quality, accuracy)
- Allocation method not tied to actual usage
- Audit rights limited to high-level totals

Owner levers

- Define scope (what tasks are included vs excluded)
- Specify deliverables: reporting pack, timelines, accuracy standards
- Allocation transparency and periodic review
- Caps or benchmarking triggers for non-property-specific categories
- Ensure recharges map cleanly to a single category (no duplication)

Questions to ask operators (5)

1. What finance tasks are delivered centrally vs property-level?
2. What is the allocation basis and can we see the schedule?
3. What reporting pack do we receive and by when?
4. Are any mark-ups applied to shared services?
5. How do we dispute recharges we believe are misallocated?

Minimum reporting / invoicing

- Itemised shared services schedule
- Allocation methodology summary and supporting schedule
- Service deliverables and timelines documented

10. Training / HR / Brand Compliance

What it is (plain English)

Charges for training programs, HR support, compliance systems, quality frameworks and brand operational standards enforcement.

Common pricing basis

- Program fees (per employee, per hotel, or fixed)
- Allocations as part of central services
- Pass-through training costs

Why it matters to owners (value impact)

These programs can protect guest experience and brand value but can also become layered costs unless scope and benefits are defined.

Red flags / watch-outs

- Mandatory programs without defined deliverables
- Overlap with QA, central services and technology charges
- No reporting on training completion, compliance outcomes or audit results
- Charges continuing during prolonged closures without rationale
- "Brand compliance" used as a cost lever without governance

Owner levers

- Define deliverables and measurable outputs (training completion, QA outcomes)
- Clarity on what is mandatory and what is elective
- Reporting tied to program objectives
- Governance: owner visibility on compliance plans and escalation
- Ensure charges align with service delivery (not simply entitlement)

Questions to ask operators (5)

1. Which programs are mandatory and what do we receive?
2. What reporting shows participation and outcomes?
3. What portion is central allocation vs property-level cost?
4. How do QA findings translate into cost and capex requirements?
5. Can we phase or tailor programs for ramp-up periods?

Minimum reporting / invoicing

- Program schedule with basis/rates
- Reporting on participation and outcomes
- Clear mapping to QA/compliance processes

11. Pre-Opening Fees and Charges

What it is (plain English)

Fees and costs related to opening the hotel: pre-opening services, recruitment, training, systems setup, marketing launch and opening support.

Common pricing basis

- Fixed pre-opening fee
- Cost reimbursement (at cost)
- Cost-plus (requires strong transparency)
- Per key / milestone-based charges

Why it matters to owners (value impact)

Pre-opening costs are often urgent, loosely governed and paid before the hotel has stabilised making governance and scope essential.

Red flags / watch-outs

- Broad scope without cap or approvals
- Operator travel and overhead bundled without receipts
- Consultancy costs passed through without selection governance
- Duplicated charges (pre-opening fee plus "at cost" support for the same work)
- No defined deliverables and timeline

Owner levers

- Clear scope: what is included in the pre-opening fee vs reimbursables
- Budget cap and approval thresholds
- Receipts/supporting documentation requirements
- Milestone-based payment and deliverable sign-off
- Clear "handover to operations" demarcation

Questions to ask operators (5)

1. What exactly is included in the pre-opening fee?
2. What items are reimbursable and what approvals apply?
3. What staffing plan, timeline, and deliverables will be provided?
4. How are third-party consultants selected and governed?
5. How do pre-opening charges transition into operating charges?

Minimum reporting / invoicing

- Pre-opening budget vs actual, line-item detail
- Receipts and third-party invoices (as applicable)
- Clear approvals record and milestone deliverables

12. Miscellaneous Pass-Throughs (Cluster, Travel, Audit, Consultants)

What it is (plain English)

A category where "small" items accumulate: travel, cluster support, audit recharges, consultant costs, special projects and sundry brand charges.

Common pricing basis

- Reimbursable at cost
- Cost-plus (risk zone)
- Fixed recharges or allocations
- Per trip / per project

Why it matters to owners (value impact)

This is where governance slips and where owners lose track of cumulative leakage because each item is individually small.

Red flags / watch-outs

- No receipts / no supporting documentation
- Broad "operator discretion" without approval thresholds
- Consultant engagements without owner visibility
- Cluster charges without defined scope or property benefit
- Recharges with unclear link to hotel operations

Owner levers

- Approval thresholds for travel, consultants and projects
- Receipts mandatory; per diem and class-of-travel policies
- Define what "cluster" includes and how it is allocated
- Require clear project scopes and time budgets
- "No fee-on-fee": avoid charging management fees on pure reimbursements

Questions to ask operators (5)

1. What qualifies as reimbursable and what is included in base/central services?
2. What travel policy applies and what support is required?
3. What approvals apply to consultants and special projects?
4. How are cluster charges allocated and evidenced?
5. Are management fees applied to any pass-through items?

Minimum reporting / invoicing

- Itemised invoices with receipts or underlying vendor invoices
- Clear project descriptions and period coverage
- Allocation schedules for cluster/shared items

What Good Looks Like (Owner-First Fee Governance)

Owners don't need "cheap" fee stacks. They need fee stacks that are:

- 1 Defined**
Every fee has clear terms
- 2 Comparable**
Can be benchmarked
- 3 Auditable**
Can be verified
- 4 Governed**
Has clear controls
- 5 Aligned**
Tied to performance

Owner-First Standard for Fee Governance

Governance principle	What good looks like
Definitions	Every fee has a clear basis, metric definition and exclusions
Mandatory vs optional	Programs are clearly classified; opt-outs are real and understood
No double-dipping	The same activity is not monetised through multiple overlapping charges without explicit disclosure and justification
Caps and triggers	Non-property-specific charges have caps or review triggers where appropriate
Audit rights	Audit scope includes schedules and allocation logic, not just totals; disputes have a practical resolution path
Benchmarking	Owners can benchmark key stacks (distribution, central services, tech) against comparable hotels over time
Approvals	Material costs and long-term commitments have defined approval thresholds
Reporting	Monthly reporting links invoice lines to verifiable system or finance reports

OWNER WATCH-OUT: If the agreement is vague on definitions and reporting, disputes become opinion-based and value leakage becomes hard to prove.

Fee Stack Negotiation Checklist (Owner/Investor Two-Pager)

Use this as a printable deal meeting assistant.

1. Stack completeness

- Base fee
- Incentive fee
- Marketing contribution
- Distribution / channel fees (all-in view)
- Loyalty charges
- Central/system charges
- Technology fees (modules + pass-throughs)
- Procurement economics (rebates + mark-ups)
- Accounting/shared services
- Training/HR/compliance programs
- Pre-opening fees + reimbursables
- Misc pass-throughs (cluster, travel, audits, consultants)

2. Definitions and bases

- Each line has a defined basis (what metric?)
- Taxes/gratuities/pure pass-throughs excluded where appropriate
- "At cost" vs "cost-plus" clearly stated

3. Double-dipping check

- No overlapping charges for the same function without disclosure
- Reservation/distribution/loyalty/technology lines reconcile to a single channel economics view

4. Governance and controls

- Mandatory vs optional is clear
- Approval thresholds for major costs and long-term contracts
- Caps / review triggers for non-property-specific allocations

5. Audit and transparency

- Audit scope includes allocation schedules and support
- Monthly reporting pack ties invoice lines to system reports
- Dispute process exists for contested charges

6. Exit and transition readiness (fee-related)

- Systems/data handover obligations defined
- Reservation pipeline and deposit treatment understood
- Final reconciliation mechanics and timelines defined

Minimum Transparency Standard (What to Insist on in Reporting)

If a fee is charged, it must be provable. Owners should insist on a reporting pack that makes the fee stack:

Traceable

to a defined metric

Reviewable

with supporting schedules

Comparable

period to period and
across assets

Minimum Invoice Fields (Non-Negotiable)

Every operator/brand invoice line should show:

- Fee name (mapped to fee category)
- Pricing basis (e.g., % Rooms Revenue / per booking / allocation)
- Rate (and any tiering)
- Metric definition excerpt (what counts, what is excluded)
- Period covered (dates)
- Supporting report reference (system report name / finance report)
- Allocation methodology (if shared)
- Vendor support where applicable (for pass-through)
- Contact point for dispute and timetable for resolution

OWNER ADVANTAGE: When invoicing is disciplined, negotiations become measurable. "It feels high" becomes "this line moved by X% and here's why."

Example 1 - 150-Key Urban Upper-Upscale Hotel (Stabilised)

Illustrative Only - Simplified for Clarity

Assumptions (illustrative):

- Total Revenue: €12.0m
- Rooms Revenue: €7.2m
- GOP: €4.0m
- Channel mix: 40% direct/brand direct, 35% OTA, 25% corporate/GDS/other
- Fee structure (illustrative, not market standard)

Headline fees:

- Base fee: 3.0% of Total Revenue = €360k
- Incentive fee: 10% of GOP (after base fee) = $10\% \times (\text{€}4.0\text{m} - \text{€}0.36\text{m}) = \text{€}364\text{k}$

"Hidden economics" stack (illustrative):

- Marketing contribution: 2.0% of Rooms Revenue = €144k
- Distribution/CRS/channel fees (blended): assume 3.0% of Rooms Revenue = €216k
- OTA commissions: 35% of €7.2m = €2.52m OTA room revenue; at 18% = €454k
- Loyalty charges (blended): assume 1.0% of Rooms Revenue = €72k

- Central/system charges: assume 1.5% of Total Revenue = €180k
- Technology: assume €12 per room per month per module bundle \approx €22k (rounded) + pass-throughs €25k \rightarrow €47k
- Shared services/accounting allocations: €60k
- Training/HR/compliance programs: €30k
- Misc pass-throughs (travel, audits, cluster): €25k

What the owner sees:

Base + Incentive alone \approx €724k

But "stacked" costs above can add \approx €1.23m+ (illustrative), pushing total operator/brand economics well above headline fees.

DEAL NOTE: The point is not that any one line is "wrong". The point is that owners must govern the entire stack, or they will negotiate the headline and lose in the layers.

Example 2 - 150-Key Resort / Mixed F&B (Higher Program Intensity)

Illustrative Only — Simplified for Clarity

Assumptions (illustrative):

- Total Revenue: €14.0m (higher ancillary)
- Rooms Revenue: €7.0m
- GOP: €4.2m
- Higher marketing, loyalty and tech intensity due to resort positioning

Headline fees:

- Base fee: 3.0% of Total Revenue = €420k
- Incentive fee: 10% of GOP (after base fee) = $10\% \times (\text{€}4.2\text{m} - \text{€}0.42\text{m}) = \text{€}378\text{k}$

Stack sensitivities (illustrative):

- Marketing: 2.5% of Rooms Revenue = €175k
- Distribution + connectivity: 3.5% of Rooms Revenue = €245k
- OTA share higher (45%): 45% of €7.0m = €3.15m at 18% = €567k
- Loyalty/redemption chargebacks higher: €140k
- Central/system allocations: 1.8% of Total Revenue = €252k
- Technology modules broader + cybersecurity: €90k
- Procurement leakage (1% improvement opportunity on spend can be material): illustrative €60k
- Shared services/accounting: €70k
- Training/HR/compliance: €35k
- Pre-opening amortised support (if applicable) or special projects: €40k

Owner takeaway:

In program-heavy assets, the "hidden economics" can accelerate faster than revenue growth. Owners should prioritise: (i) consolidated distribution economics, (ii) allocation transparency and (iii) governance triggers for program changes.

OWNER WATCH-OUT: If your term sheet doesn't show how distribution + loyalty + system + tech charges work together, you don't yet have the real economics.

Understanding the Total Economic Impact

The examples demonstrate a critical principle: headline fees are only part of the story.



When owners focus exclusively on negotiating the base and incentive fees, they may achieve favorable headline rates while missing the larger economic picture. The "hidden economics" stack comprising marketing contributions, distribution costs, loyalty charges, central services allocations, technology fees, and other pass-throughs can collectively exceed the headline fees by a significant margin.

This is why transparency and governance across the entire fee stack is essential. Without clear definitions, reporting requirements and audit rights for every category, owners cannot effectively manage their total operator costs or make informed decisions about value and performance.

The Double-Dipping Problem

One of the most common sources of value leakage is **double-dipping** — where the same activity or value is monetised through multiple overlapping charges.

Common Double-Dipping Scenarios:

Distribution + Loyalty + CRS

A single booking may trigger charges across multiple categories: a CRS fee, a distribution/channel fee, a loyalty program charge and potentially a technology platform fee - all for facilitating the same reservation.

Central Services + Technology + Accounting

Back-office functions may be charged through central services allocations, then again through technology fees for the systems that support those functions and yet again through accounting/shared services recharges.

Marketing + Distribution + Loyalty

Brand marketing contributions, distribution costs and loyalty program charges may all claim to fund demand generation, but without clear boundaries, owners pay multiple times for overlapping activities.

Pre-opening + Training + Systems

Pre-opening fees may include training and systems setup, but owners may also be charged separately for training programs and technology implementation during the same period.

The solution is not to eliminate all overlapping categories - some legitimate separation exists - but to demand explicit disclosure of what each charge covers and where boundaries lie. When operators can clearly articulate why multiple charges apply to the same activity and demonstrate distinct value delivery, owners can make informed decisions about whether the total cost is justified.

The Allocation Transparency Challenge

Many of the most problematic fee categories involve cost allocations: where a shared cost pool is divided across multiple properties using a formula.

Why Allocations Create Governance Problems:

1. **Opaque methodology:** Allocation formulas are often not disclosed in detail, making it impossible to verify whether a property's share is reasonable.
2. **Drift over time:** As the operator's system grows or changes, allocation bases may shift, causing individual property costs to increase without corresponding value delivery.
3. **Weak audit rights:** Many agreements limit audit scope to property-level costs, excluding the underlying allocation schedules and system-wide cost pools.
4. **No benchmarking:** Without visibility into comparable properties' allocations, owners cannot determine whether their share is fair or inflated.
5. **Limited governance:** Owners typically have no approval rights over changes to allocation methodologies or the underlying cost pools being allocated.

Owner-First Allocation Standards:

- **Methodology disclosure:** The allocation formula must be clearly documented and provided to owners annually.
- **Allocation basis:** The metric used (revenue, rooms, bookings, etc.) should be logical and verifiable.
- **Supporting schedules:** Owners should receive the full allocation schedule showing all properties and their respective shares.
- **Audit rights:** Audit scope must extend to allocation methodologies and underlying cost pools, not just final allocated amounts.
- **Caps or triggers:** Consider caps on non-property-specific allocations or review triggers when allocations increase beyond defined thresholds.
- **Revalidation:** Allocation methodologies should be reviewed and revalidated periodically (e.g., every 3-5 years) to ensure continued relevance.

The Procurement Economics Blind Spot

Procurement represents one of the most significant and least transparent areas of potential value leakage in hotel management agreements.

How Procurement Economics Work:

- **Vendor Relationships**
Operators negotiate with vendors for goods and services used across their system
- **Volume Rebates**
Vendors provide rebates, commissions or volume incentives based on system-wide purchasing
- **Economic Capture**
Operators may retain rebates while charging owners program fees or mark-ups on purchases

The Transparency Problem:

In many agreements, procurement economics are completely invisible to owners. The operator may:

- Receive substantial rebates from vendors without disclosure
- Charge owners "at cost" while retaining vendor incentives
- Apply mark-ups to purchases without clear justification
- Mandate preferred vendors who provide inferior pricing or service
- Use related-party vendors without disclosure or competitive bidding
- Charge procurement program fees while simultaneously retaining rebates

Owner-First Procurement Standards:

1. **Full disclosure:** All related-party vendor relationships and rebate arrangements must be disclosed
2. **Rebate treatment policy:** Clear rules on how rebates are treated (credited to property, netted against program fees or retained with justification)
3. **Competitive bidding:** Thresholds above which competitive bids are required, with owner participation rights
4. **Benchmarking rights:** Ability to benchmark major vendor pricing against market alternatives
5. **Audit access:** Audit rights that extend to vendor contracts and rebate schedules where material
6. **No double-charging:** If rebates are retained, procurement program fees should be reduced or eliminated

Technology Fees and Exit Readiness

Technology fees deserve special attention not only for their cost impact but also for their implications on exit readiness and operational flexibility.

The Technology Lock-In Problem:

Operators often control critical systems and data, creating dependencies that extend beyond the management agreement term:

- **Proprietary systems:** PMS, CRS and other core systems may be operator-proprietary, making transition difficult
- **Data access:** Guest data, booking history and operational data may be trapped in operator systems
- **Integration complexity:** Systems may be deeply integrated with brand platforms, making separation costly
- **Transition support:** Cutover obligations and timelines may be vague or inadequate
- **Ongoing dependencies:** Even after termination, reservation pipelines and loyalty obligations may create lingering dependencies

Owner-First Technology Governance:

01

System Transparency

Clear documentation of all mandatory and optional technology components, with itemized pricing and vendor relationships disclosed

02

Data Rights

Explicit ownership and access rights to all property-generated data, with defined formats and extraction procedures

03

Transition Obligations

Detailed cutover procedures, timelines and support obligations in the event of termination or non-renewal

04

Alternative Options

Where feasible, rights to use alternative systems or vendors for non-core functions

05

Cost Controls

Approval rights for major system upgrades and clear policies on how upgrade costs are allocated

Technology governance is not just about controlling costs during the agreement term. It's about preserving strategic flexibility and ensuring that owners can effectively transition to a new operator or operating model if needed.

Building a Governance Framework That Works

Effective fee stack governance is not about confrontation or mistrust but about creating clear systems that make disputes unnecessary.

The Four Pillars of Effective Fee Governance:

Clear Definitions

Every fee category has precise definitions, metric bases, and exclusions documented in the agreement

Routine Reporting

Monthly reporting that links every invoice line to verifiable system or finance reports

Audit Rights

Practical audit scope that includes allocation schedules, vendor support, and underlying methodologies

Dispute Resolution

Clear escalation procedures and timelines for resolving contested charges

Making Governance Practical:

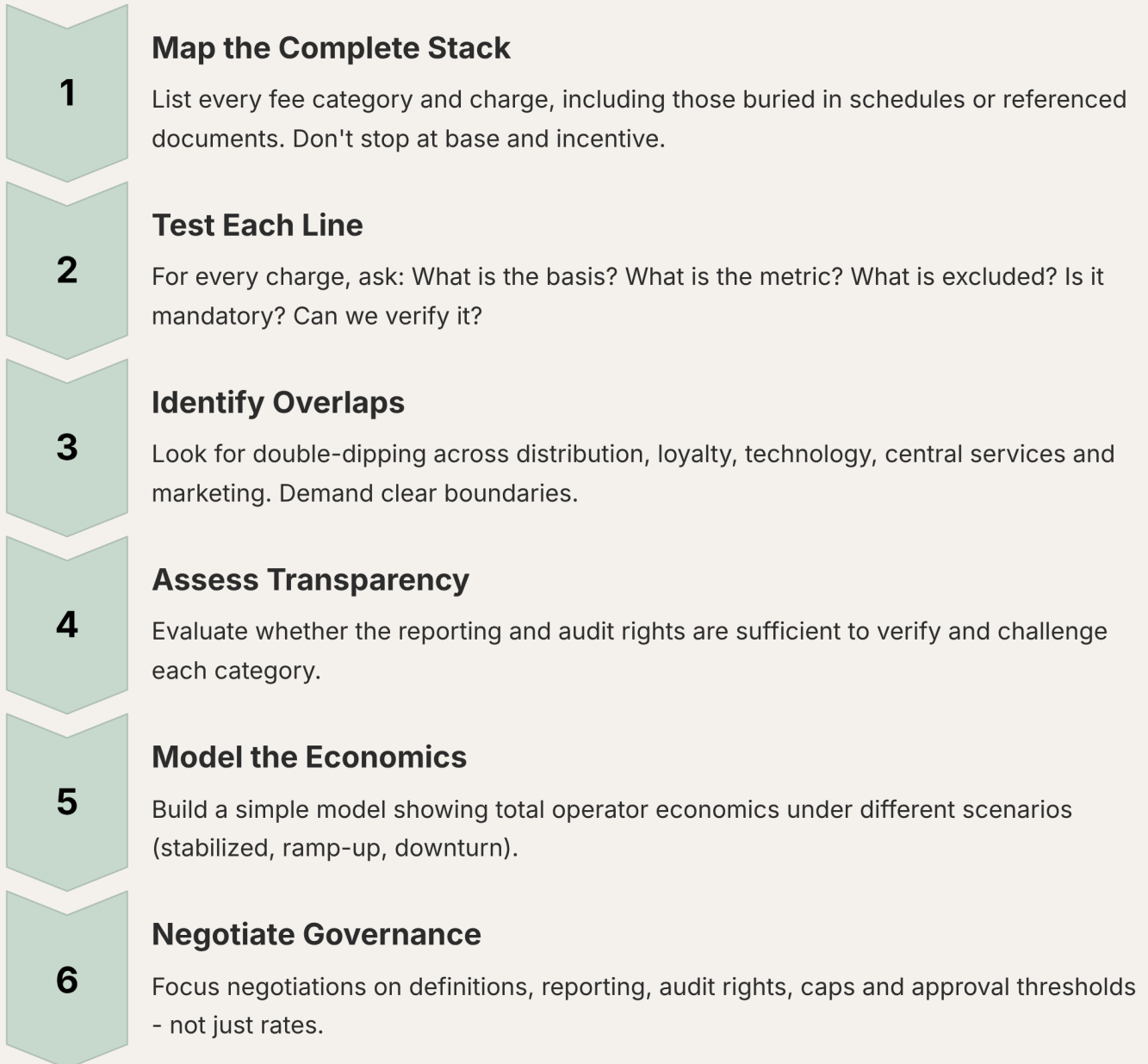
The best governance frameworks are those that operators can comply with efficiently and owners can use effectively:

- **Standardized reporting:** Use consistent templates and formats that can be generated from existing systems
- **Reasonable frequency:** Monthly for routine items, quarterly for allocations, annually for methodology reviews
- **Proportionate detail:** More detail for material or opaque categories, less for transparent or immaterial items
- **Clear thresholds:** Define what triggers additional scrutiny, approvals or audit rights
- **Collaborative approach:** Frame governance as mutual transparency, not adversarial oversight

If you find this framework useful, it forms part of a broader, owner-focused series on hotel operating structures and management agreements.

Putting It All Together: The Owner Deal Review Process

When reviewing an operator term sheet or existing management agreement, use this systematic approach to decode the fee stack:



Key Questions for Your Deal Team:

1. Can we build a complete fee stack model from the term sheet and supporting documents?
2. Are there any categories where we lack visibility into the pricing basis or allocation method?
3. What is the total "all-in" operator economics as a percentage of revenue under realistic scenarios?
4. Where are the highest-risk areas for value leakage or future disputes?
5. Do we have sufficient governance tools (definitions, reporting, audit rights, approvals) for each material category?
6. How does this fee stack compare to other deals we've reviewed or benchmarks we have access to?
7. What are our exit readiness considerations, particularly around technology and data?

Next Steps: Beyond the Fee Stack

This decoder focuses on one critical dimension of hotel management agreements: the operator fee stack and hidden economics.

In real transactions, owners and investors also need clarity on:

- Control and governance (budgets, approvals, reporting)
- Performance protections and termination mechanics
- Liability, indemnities, and insurance alignment
- Data rights, procurement controls and transition readiness
- Sale/assignment and exit friction
- Brand standards, PIPs and long-term capital implications

The Complete Owner-First Playbook

If you are negotiating or reviewing an HMA, our paid 3-book series is designed as the complete owner-first reference:

Book 1

The operating model decision: choosing the right structure

Book 2

Control, risk allocation, performance rights and enforceability mechanics

Book 3

Negotiation playbook, fee governance, downside scenarios and deal tools (including the owner/investor checklist)

Get the Full Playbook

If you'd like the full playbook (with deeper clause-by-clause guidance, negotiation frameworks and practical checklists), the 3-book series is the natural next step.

[Get the 3-book series](#)

[Request the Owner Deal Review Checklist pack](#)

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