

# PUBLICATION

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## Halt to 'call-arounds' puts La Quinta in spotlight

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Recently LQ Management, LLC and La Quinta Franchising LLC (collectively, La Quinta) entered into an agreement with the Connecticut Attorney General to stop engaging in "call-around" practices, pursuant to which La Quinta properties would participate in frequent information exchanges with locally competing hotels. The Attorney General alleged, and La Quinta did not admit, that the frequency and immediacy of the exchanges of occupancy and room rate information resulted in stabilization or increase in price by hotels in the particular geographic area.

The call-around practice describes the process whereby hotels identify local competitors whom they contact, often two or three times a day, to give and receive information on each others' current occupancy rate and standard room rate for that day. The practice is deeply ingrained in the hotel and hospitality industry, so much so that the procedure is described in many hotel training manuals, and widespread. In November 2005 the French Competition Council ruled that call-arounds made by six luxury hotels in Paris were anticompetitive and kept room rates high.

The concern, of course, is that such contemporaneous price and occupancy information constitutes, in effect, collusion, as each hotel knows the price point below which it would be needlessly undercutting its local competitors. Call-arounds are defended as facilitating forecasting, effectively managing occasional excess demand and increasing referral business from other hotels. In any event, the information collected through call-arounds is only useful if the participants are telling the truth, something anecdotal evidence suggests is not universally the case.

Pursuant to the agreement, La Quinta agreed to immediately cease the practice of call-arounds by its Connecticut properties, and to do so within 60 days at all United States La Quinta company hotels and hotels managed by La Quinta (there are some franchised properties not managed by La Quinta and so not part of the agreement.) Further, La Quinta agreed to include, for four years, a statement in its Franchise Disclosure Documents that information exchange in general, and call-arounds in particular, could constitute antitrust law violations and were not to be undertaken by La Quinta owned or managed properties.

The agreement has been criticized as unworkable—or at least ineffective—insofar as it does not prohibit other forms of information collection, such as blind calls or mystery shopping (or even counting cars in a rival's parking lot), does not bar access to available industry reports and resources, and binds only La Quinta properties from participating in call-arounds and so not likely to greatly impact the industry as a whole. Finally, with the availability of the Internet, the practice of call-arounds is now more of an historical anomaly not sufficiently fulsome to require action on the part of antitrust regulators.

The prevalence of the practice of call-arounds and the intuitive, if overstated, conclusion that contemporaneous exchange of rate and occupancy information may invite interest by other state attorneys general—in any event more can be expected from the Connecticut Attorney General's Office.

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