

## Select impact studies using scientific approach

BY JEFF COY, ISHC

A new hotel is opening in your competitive area. It is called *territorial encroachment*. If the new encroaching hotel is a different franchise brand name than yours, that is pure competition. But what if the new encroaching hotel is the same brand or a sister brand to yours? Now, you suffer what is called *incremental impact*. Incremental impact (loss of room revenue) results from your franchisor wanting to expand its number of hotels -- even at your expense -- by giving you a new competitor in your own backyard. Now, you're talking financial damage!

If you're not happy with your situation, it's time you knew more about Impact Studies and the consultants who do them. Here are 6 things you should know and do:

1. **Check your franchise contract.** Do you have a territorial protection clause, which prevents a same brand or sister brand hotel opening within a certain mile radius of your hotel? Whoops! No territorial protection? Nothing about sister brands? Get involved with other owners to help your franchisor rewrite its contract.
2. **Check your hotel chain's Impact Policies.** How will they handle your objection to the encroaching hotel? Look for due consideration versus take it or leave it.
3. **Get a list of consultants.** Find consultants who conduct territorial and brand impact studies and ask for help. Contact the International Society of Hospitality Consultants. Go to their website at [www.ishc.com](http://www.ishc.com).
4. **Know when to hire your own consultant.** Most territorial and brand impact disputes are resolved in a fair manner. A few go to litigation. The franchisor typically hires a neutral consultant to conduct an Impact Study. Independent consultants by definition are impartial and objective. A professional impact study should be considered binding, but often it is not. If your hotel chain ignores the results of a sound impact study, you may want to hire your own consultant to negotiate on your behalf.
5. **Impact studies vary in quality from consultant to consultant.** Know what makes an excellent report -- one that can withstand close scrutiny and cross examination. Avoid impact reports that are simply a rambling narrative of gut feeling and opinion with only anecdotal evidence. These reports are useless. Ask your impact consultant to explain his approach to measuring impact. Hire an impact consultant who provides a rationale and evidence to support financial damages.
6. **Insist on an Impact Study that uses a scientific approach.** One of the best approaches to measuring impact is called *Importance-Similarity Analysis*. This is a bonafide research

technique that is ideal for calculating loss of business and determining financial damages. This approach provides the rock-solid evidence that can withstand cross examination. Here is the approach:

### **Importance X Similarity X Business At Risk = Impact**

What are the factors that affect impact? Not all impact factors are equally important. Therefore, you or your consultant must assign a weight of relative importance to each impact factor. You do this by allocating 100 points among these factors:

- Location Proximity,
- Access & Visibility
- Product Quality
- Service Quality
- Demand Generators
- Customer Segments
- Top Accounts
- Geographical Feeder Areas
- Room Rates
- Marketing Approach
- Competitor Set

Look for similarities and differences. You have to determine the degree of similarity among the two hotels on each impact factor. The more both hotels are similar, the more they compete with each other, and therefore, the more they impact each other. Give the two hotels a similarity rating from 1 to 100 on each impact factor. When you combine importance ratings and similarity ratings, you get a value or number that can be applied to the business at risk.

**What business is at risk?** Using *Importance-Similarity Analysis*, you would look at the reservations mix, distribution and customer mix for both the encroaching and objecting hotels.

**Reservation channels.** Rooms are sold (1) by chain central reservations, (2) by the hotel directly and (3) to walk-ins without reservations. Who controls this business --- the chain or the hotel? The impact consultant determines what percent of each type of business the hotel chain can divert to the new encroaching hotel.

**Distribution channels.** Rooms are sold (1) directly to consumers, (2) through travel agencies, and (3) through wholesalers. What percent of each can the hotel chain divert to the new encroaching hotel?

**Customer segments.** Rooms are sold to (1) individual travelers, (2) individual leisure travelers, (3) business groups, and (4) leisure groups. What is the customer mix for both hotels? Check for similarity and differences. How much of each customer segment can the hotel chain divert to the new encroaching hotel?

*Importance-Similarity Analysis* is a simple framework for measuring impact, loss of business and determining damages. Since every hotel and market is different, it is ideal for achieving consistency from one situation to another. In other words, it provides fairness to all owners throughout the hotel chain.

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