

## Hotel Brand Impact:

### Can Hotel Franchisors Compete With Their Own Franchisees?

Hotel Owners & Law Firms Look to Impact Consultants for Scientific Approach to Determining Damages.

By Jeff Coy, ISHC

#### *Special Report*

As a hotel owner or lawyer with a hotel owner client, you get a notice that your franchisor plans to award another franchise in your competitive market area. You get a sinking feeling that the new hotel will negatively impact your hotel or your client's hotel. That's called *territorial encroachment*. If the new encroaching hotel is a different franchise brand name than yours, you experience **base impact** --- that's pure competition.

But what if the new encroaching hotel is a sister brand to yours? What if the new encroaching hotel is a Days Inn and your hotel is a Super 8 --- both a member of the Cendant family of brands? What if the encroaching hotel is a Comfort Suites and your hotel is a Comfort Inn, both a variation of the same brand within the Choice family of brands. Now, you will 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, your hotel or your client's hotel suffers financial damage! Is this fair? Is it legal?

Each hotel chain --- Best Western, Cendant, Choice, Holiday, Marriott, Starwood --- has a different way of handling impact issues and damages. If you're not happy with your situation, it's time you knew more about methods of determining impact and the consultants who can provide litigation support.

First, check your franchise contract. Do you have a territorial protection clause, which prevents a new hotel of the same brand being built within a certain mile radius of your hotel? Whoops! No territorial protection? Can your franchisor award a license for a new hotel that it will manage for another owner in your backyard? Does your franchise contract specifically prevent this from happening or is it silent on the matter? What if your franchisor company acquires another hotel chain and suddenly your local competitors have access to your reservations and sales data --- due to integrating the two chains into one system? So, in addition to impact, you may be dealing with breach of contract, agency and fiduciary responsibility. You may need a hospitality consultant to determine impact and damages.

Second, check out your hotel chain's Impact Policies regarding encroachment of same brand hotels and sister brands that may negatively impact your hotel's revenues.

Third, get a list of hospitality consultants who conduct territorial, brand and franchise impact studies. Go to [www.ishc.com](http://www.ishc.com) and contact the International Society of Hospitality Consultants or any of its members who do litigation support.

Fourth, read this article to better understand what makes an excellent Impact Study --- one that provides a more scientific method to determining impact. Save this article and give a copy to impacted hotel owners and their law firms.

Impact Studies vary according to purpose and strategy. And they vary in quality, depending on the consultant chosen. What's the quality standard for hotel brand on brand impact studies? Some recent hotel impacts I've read range from fair to excellent. The worst was a rambling narrative of gut feeling with only anecdotal evidence. A better impact study was a professional opinion with a few charts and graphs to support the rationale. Nobody --- franchisor, franchisee, judge or jury --- has much confidence in gut feelings or opinions without the numbers. So, what is the best approach to determining the impact of one hotel upon another?

Enter the *Integrated Statistical Impact Model* or ISIM.

"Wait a minute," cry the pundits. "You can't reduce impact to a formula. Every hotel and market is different." I agree. And that's why ISIM works so well. The point is, the encroaching hotel and the objecting hotel share a degree of similarity or competitiveness regarding each impact factor. And not all impact factors are equally important! Using ISIM, the impact consultant assigns a weight or importance rating to each impact factor. The consultant next determines the degree of similarity among the encroaching and objector hotels on each impact factor. These *importance-similarity* ratings then feed into the Integrated Statistical Impact Model, which

calculates the gain or loss of room nights and revenues due to impact.

Using ISIM is the scientific approach to determining hotel impact. It is a reality check against gut feelings and unsubstantiated opinions. And it is rock-solid evidence for settling impact disputes. And yes, it is a formula that is used after diligent analysis.

Importance X Similarity X At Risk Business = Impact.

JLC Marketing Associates developed the new impact technology using a bonafide research tool called *Importance-Similarity Analysis*. First, the consulting firm determines the Objector hotel's business at risk of loss according to reservation/distribution channels and customer mix. Room nights received through the chain's central reservation system are the most brand-loyal and at the highest risk of diversion to the encroaching hotel. Hotel-direct reservations are more loyal to the hotel than the brand and at medium risk of loss. Walk-ins with no reservation are impulse decisions, least brand-loyal and at the lowest risk of loss.

Second, the firm compares each hotel's customer mix for risk of loss. Third, there are mitigating impact factors, such as location proximity, type of hotel and rates. Not all factors affecting impact are equally important! So, JLC Marketing Associates determines the relative importance of 10 impact factors and assigns a weight or importance rating to each one. Fourth, consultants determine the degree of similarity among the encroaching and objecting hotels on each impact factor.

Finally, JLC inserts these *importance-similarity* values into ISIM, which provides a quantitative solution that results in gained or lost room nights and revenues due to impact.

What business is at risk?

The impact consultant using ISIM determines exactly what type and amount of business is at risk of loss by the Objector hotel. The consultant positions both the encroaching and objecting hotels in the context of the market, competitor set and same-brand competitor set. The consultant determines the Objector hotel room nights and revenues at risk of loss by reservation/distribution channel and by customer segment. For example, when a 200-room hotel encroaches upon a 200-room Objector hotel running 60% occupancy, you might find something like this.

<i>Objector Receives From</i>	<i>Occupied Room Nights</i>	<i>Mix</i>	<i>Consultant Determines Percentage At Risk</i>	<i>Consultant Determines Room Nights At Risk</i>	<i>Fair Share Room Nights At Risk</i>
Chain Central Reservations	13140	30%	100%	13140	6570
Hotel Direct Reservations	21900	50%	50%	10950	5475
Walk-Ins with No Reservations	8760	20%	10%	876	438
Total	43800	100%	57%	24966	12483

The impact consultant has determined (due to the power of the brand name) that all of the central res room nights are at risk due to the encroaching hotel, half of the hotel direct room nights are at risk, and 10% of the impulse room nights are at risk. Using ISIM takes in account the fact that individual travelers book more through central reservations while meeting planners and group tour producers book more directly with the hotel. Using the same example, the impact consultant has determined by customer segment the occupied room nights that are at risk due to the impact of the encroaching hotel.

<i>Objector Hotel Customer Segments</i>	<i>Occupied Room Nights</i>	<i>Mix</i>	<i>Total Percentage At Risk</i>	<i>Consultant Determines Room Nights At Risk</i>	<i>Fair Share Room Nights At Risk</i>
Individual Business	17520	40%	57%	9986	4993
Individual Leisure	15330	35%	57%	8738	4369
Group Business	8760	20%	57%	4993	2497

Group Leisure	2190	5%	57%	1248	624
Total	43800	100%	57%	24966	12483

What are the factors that affect impact?

Not all impact factors are equally important. Some factors contribute more to pure competitive base impact while others are more important in determining brand upon brand incremental impact.

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

**Location proximity, access and visibility:** These are very important impact factors. The new hotel encroaching upon your hotel could be next door or 25 miles or more away.

**Product Quality:** The new encroaching hotel could very different or could the same in terms of hotel type, size, features and physical condition.

**Service Quality:** Looking at the number and quality of services offered, the encroaching hotel could be very different or could be the same.

**Major Demand Generators:** The encroaching hotel could have very different or very similar demand generators compared to your hotel.

**Customer Mix:** The encroaching hotel could have a different or same customer mix.

**Top Accounts:** If the encroaching hotel has a different set of top accounts or the same top accounts as your hotel, this is a very important impact factor.

**Feeder Areas:** The encroaching hotel may draw the same percent of customers from the same feeders markets as your hotels, or it could vary widely.

**Rate Similarities:** From having identical rates to having rates that are far apart, this is a very important factor in determining the impact of the encroaching hotel upon your hotel.

**Marketing Approach:** The encroaching hotel could invest from very different to identical amounts and ratios of marketing dollars on very different or very similar marketing channels, tools and media.

**Competitor Set:** The encroaching hotel could have a totally different set of competitors or it could be the identical competitor set that your hotel has.

When developing the Integrated Statistical Impact Model, JLC Marketing Associates assigned an importance rating to each factor. One hundred points of relative value were allocated among the 10 factors that can impact room nights at risk of loss. The firm surveyed numerous experts to arrive at a consensus of the relative importance of each impact factor. Individual consultants using ISIM have the flexibility to adjust these values, if they see fit. For example, let s say the location factor has a relative value of 40 points.

The three most important factors affecting impact are location proximity, top account similarity and room rate similarity. In a nutshell, the quickest way to impact an existing hotel is to introduce a new same-brand hotel in the same location with rooms appealing to its top accounts at the same price.

What is the degree of similarity between the encroaching and objecting hotels on each weighted impact factor?

Another *principle of determining impact* says there is a direct relationship among similarity, competitiveness and impact. A high degree of hotel similarity equates to a high degree of competitiveness that translates to a high degree of impact. The impact consultant, using ISIM, compares the encroaching hotel with the objecting hotel to determine the degree of similarity on a scale of 1 to 100 --- from very different to very similar --- on each impact factor. For example, the consultant may give a 35% similarity rating on the location factor.

Visualize this: If you clone a hotel and create its exact twin and place it side by side in the same location as the first hotel, what is the maximum impact upon the first hotel? They would split the business equally on a fair share basis. In reality, not all hotels are exactly the same, but they do have a degree of similarity. JLC Marketing Associates created a detailed checklist for comparing similarities and differences for both the encroaching hotel and the objecting hotel. After the comparative analysis is complete, the consultant determines a similarity rating from 1 to 100 for each factor that affects impact.

When the consultant assigns *importance-similarity* ratings to all the impact factors, the model produces values that can be applied to the room nights at risk of loss:

<b>Impact Factors</b>	<b>Relative Importance Allocate 100 points</b>	<b>Similarity Rating Score 1 to 100</b>
Location, Access & Visibility	40	35
Product	5	40
Service	3	40
Demand Generators	3	25
Customer Segments	5	80
Top Accounts	12	50
Feeder Areas	5	50
Room Rates	19	60
Marketing Approach	3	25
Competitors	5	10

Importance ratings times similarity ratings on 10 impact factors provide values that are inserted into the Integrated Statistical Impact Model and applied to the business at risk --- resulting in room nights and revenues gained or lost due to the impact of one hotel upon another.

For example, if the location factor has a relative importance of 40% and a similarity rating of 35% among the two hotels and 12,463 room nights are at risk of loss, the Objector is likely to lose 1746 room nights to the encroaching hotel. At an average rate of \$110, the Objector will lose \$192,060 --- just due to the location factor.

Now consider the other impact factors, their relative importance and similarity ratings and the impact can add up to huge damages. In a recent case study, a 200-room Objector hotel experienced a loss of 4531 room nights or 6.2 points of occupancy to the encroaching hotel of the same brand. At a \$110 ADR, that represents a room revenue loss of \$498,410 due to impact. Further, consider breach of contract, duty of good faith and fair dealing, and the damages go even higher.

Impacted hotel owners and their law firms are taking notice of the accuracy provided by the Integrated Statistical Impact Model. Using ISIM, the impact consultant can add credibility and support to impact reports and more easily defend the rationale for assessing impact. Compared to gut feeling and unsubstantiated opinion, the hospitality consultant using ISIM builds rock-solid evidence that can withstand cross examination.

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