PROVOCATIVE QUESTIONS ABOUT HOTEL IMPACT ANALYSIS

By Robert T. Patterson, ISHC

A franchisor has an opportunity to license a newly developed hotel with its brand, or to convert an existing property to its brand. However, it has an existing franchised property four miles away. In these circumstances, the franchisor typically has an obligation to assess whether branding the additional property could cause significant negative impacts on the business and profitability of its existing franchisee. Hotel franchisors often retain hospitality consultants to perform an independent analysis (generally referred to as "impact analysis") of the extent and duration of negative impact that an additional hotel bearing the franchisor s brand would have on the business of its existing franchisees. If the resultant impact analysis results in a severe projected decline in occupancy for an existing franchisee lasting over several years, it is probably unlikely that the franchisor would approve the branding of the hotel in question. Conversely, slight or no projected negative impact on any existing franchisee would be a factor encouraging approval.

The scope of the impact analysis is usually determined by the franchisor, and is nearly always expressed to the consultant as something like "estimate the potential impact on existing franchisee A of the proposed branding of the Blank Hotel." My problem with this scope is that it focuses on a single branding opportunity, and may ignore the overall scope of the franchisor s contemplated or historical branding activities in the area.

For example, I recently reviewed three impact analyses that had been prepared more or less simultaneously for a franchisor and provided to one of its franchisees. Each of the three studies dealt with a separate potential conversion opportunity near the franchisee s property. Two of the studies concluded negligible to slight impact, and the third concluded slight to moderate impact for a two-year period.

I could envision a franchise committee looking at each report, seeing no impact problem with the two "slight to negligibles," and a conscionable level of impact for the third. Conceivably, then, there would be no serious impact barriers to licensing all three.

My questions are:

- Shouldn t someone (probably either a consultant or the franchise committee) be looking at the cumulative impacts from licensing combinations of the hotels under consideration?
- If so, is it probable that someone is making and reporting upon such an analysis?

An analogous situation occurs when a franchisor brands two or more properties in a market over a period of a few years. Suppose, for example, that a franchisor commissioned impact analysis of a potential conversion of Property A in 1997, and moderate impact on a particular franchisee was found. The impact seemed conscionable, and this property was licensed. In 1998, in the same market, another conversion opportunity is identified. Because the consultant s scope will likely be "measure the potential impact on the franchisee of converting Property B to our Brand," the impact that converted A has already had will not be considered. If the impact of Conversion Opportunity B by itself is not considered severe, it may also be converted even if the cumulative projected impact upon the franchisee of B layered on top of A were to be severe.

My additional questions are:

- Where there is a series of new brandings in a market in a relatively short interval, should cumulative impact be considered?
- Have readers ever seen such cumulative impact reflected in the scope of an impact assignment?
- Have readers seen it taken into account in some other way?

To sum up, evaluating the impact of a single branding opportunity may be appropriate in a market where the franchisor has not recently branded other hotels, and does not have multiple branding opportunities under consideration. Otherwise, the single branding opportunity scope is asking the wrong question.

I welcome franchisors , franchisees and consultants comments at paradigm2@msn.com.

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