

New Hotel Encroaching on Your Territory?

Everything You Need to Know About Brand Impact Studies, Assessing Loss of Business & Determining Damages.

By Jeff Coy, ISHC

Special to HM&M

You hear the news that another hotel is opening in your competitive area. You get a sinking feeling that the new hotel will negatively impact your hotel. That's called *territorial encroachment*. If the new encroaching hotel is a different franchise brand name than yours, that's 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's 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? You may want to 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.
- 4. Know when to hire your own consultant.** Most brand impact disputes are resolved in a democratic fashion. Some go to litigation. To settle territorial encroachment and brand impact disputes, the franchisor typically hires an independent consultant to conduct an Impact Study. Who chooses the consultant and who pays varies from chain to chain. Independent consultants by definition are impartial and objective. A professional impact study should be considered binding, but often are not. If your hotel chain ignores the results of a sound impact study, you may want to hire your own consultant to work with your legal counsel.
- 5. Impact studies vary in quality from consultant to consultant.** You need to 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. Look for an impact report that uses a scientific approach and quantitative system for measuring impact. Look for a sound rational approach. Look for data, charts and graphs to support impact conclusions. Neither objector nor franchisor have any confidence in gut feelings and opinions. Both need evidence to support financial damages.

6. Know the scientific approach to determining impact. It is called *Importance-Similarity Analysis*. This is a bonafide research technique that is ideal for measuring hotel impact, calculating loss of business and determining financial damages due to impact. This is the professional quality that is going to take to resolve territorial and brand disputes with satisfaction. Here's the approach:

Importance X Similarity X Business At Risk = Impact

In a nutshell, what are the impact to be evaluated? Not all impact factors are equally important. Therefore, you or your consultant must assign a weighting 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
- Competitors Set

Next, you have to compare the encroaching hotel with the objecting hotel. Measuring impact is basically determining the degree of similarity among the two hotels on each impact factor. So, you must look for similarities and differences. The more both hotels are similar, the more they compete with each other, and therefore, the more they impact each other. Now you must assign a similarity rating to the hotels. You do this by assigning a similarity rating from 1 to 100 on each impact factor. When you combine importance ratings and similarity ratings, yet 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 mix and customer segment mix for both the encroaching hotel and the objecting hotel.

Reservation channels. Room are sold (1) through chain central reservations, (2) by the hotel directly and (3) to walk-ins who arrive without reservations. Who controls this business --- the chain or the hotel? The impact consultant has to determine what

percentage of each type of business the hotel chain can divert to the new encroaching hotel.

Distribution channels. Rooms are sold (1) directly to the consumer, (2) through travel agencies, and (3) through wholesalers and other intermediaries. What's the mix for both hotels? Who controls this business --- chain or hotel? What percentage 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's 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 scientific approach, and it's easy. The impact consultant has constructed a simple framework for calculating impact --- a grid or matrix or spreadsheet where you can plug in importance ratings and similarity ratings and then apply them to business at risk of loss due to the impact on the encroaching hotel. "Wait a minute," cry the pundits. "You can't reduce impact to a formula." Yes you can! Since every hotel and market is different, this is why *Importance-Similarity Analysis* works so well. After your due diligence, you simply insert all of the variable information into a model that is consistent from one situation to another. In other words, it provides fairness to all owners throughout the hotel chain.

Here's how it works in detail:

What Business Is At Risk

The impact consultant using *Importance-Similarity Analysis* determines exactly what type and amount of business is at risk of loss by the Objector hotel. He positions both the encroaching and objecting hotels in the context of the market, all competitors, sister-brand competitors and same-brand competitors to determine fair share of business at risk. Now, you have to analyze the Objector hotel's business mix from:

- Reservation channels
- Distribution channels
- Customer segments

For example, room nights received through the chain's central reservation system tend to be 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 typically impulse decisions, least brand-loyal and at the lowest risk of loss.

Relative Importance of Impact Factors

Here are the top 10 impact factors evaluated in most impact studies:

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

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. You have to determine the relative importance of these factors by allocating 100 points of value among these impact factors.

As you might expect, the three most important factors affecting impact are location proximity, top account similarity and room rate similarity. The location factor alone could have a relative importance of 40 out of 100.

Degree of Similarity Among Hotels on Each Impact Factor

A high degree of similarity equates to a high degree of competitiveness that translates to a high degree of impact. You compare 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 location factor may have a 35% similarity rating.

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

<i>Impact Factors</i>	<i>Relative Importance</i> <i>Allocate 100 points</i>	<i>Similarity Rating</i> <i>Score 1 to 100</i>
Location, Access & Visibility	40	35
Product Quality	5	40
Service Quality	3	40
Demand Generators	3	25
Customer Segments	5	80
Top Accounts	12	50
Geographical 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 framework 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.

Using Importance-Similarity Analysis, you can add credibility and support to impact reports that are often based on gut feeling and unsubstantiated opinion. Now, you can build rock-solid evidence that can withstand cross examination. By using a more scientific approach, you can resolve your franchise brand dispute early.

Jeff Coy, ISHC, is president of JLC Hospitality Consulting, a hospitality research & consulting firm with offices in Rochester MN. Call him at 507-289-7404 or email jeffcoy@jeffcoy.com.