



SMITH TRAVEL RESEARCH

A Simple Solution to Impact

Reprint - By: Steve Rushmore, MAI, CHA.

Choice Hotels recently announced the hiring of a consultant to evaluate the company's impact policies and recommend ways they can be improved. I hope Choice didn't pay very much for this study, because I have a simple solution to this hotly debated issue.

Every time a hotel company adds another property to its chain, that action has some impact on existing hotels. While some might argue that an additional hotel can create a positive impact on the entire chain by increasing its overall brand awareness, most impact disputes focus on the potential loss of business when a traveler has a choice between two hotels with identical brands.

Hotel companies, particularly those that franchise extensively, are intent on growing their brands. Big is better for franchisors since each additional hotel adds brand value and franchise fees. Although new chains can expand into many markets, eventually hotel companies begin to add more hotels to areas where they have existing product. These existing hotels are susceptible to the adverse effects of same-brand competition known as impact.

Most hotel chains attempt to deal with the impact issue by commissioning

independent consultants to perform impact studies that allegedly measure the adverse effect on the existing hotel's revenue (usually based on occupancy and room rate) from adding same-brand competition to a particular market. If impact from the proposed same-brand competitor is above a certain level, the franchise application is denied. While these studies are generally performed by highly skilled hotel market analysts (including HVS), the results are at best educated guesses. It's like trying to guess what the Dow Jones Industrial Average will be a year from now. With all the data available tracking and projecting this important index, the answer should be fairly simple. But it isn't.

I don't think you can project future impact with any reasonable degree of accuracy. I don't even think you can measure historic impact; there are just too many factors that affect a hotel's revenue performance. So the solution isn't to try quantifying impact, but rather to head off the problem before it occurs. Here is my solution:

Starting today, all new hotel franchise agreements should contain a defined geographic area in which the hotel chain could not franchise, operate or invest in a hotel having either the same or a competitive brand over the term of the agreement. Prospective franchisees

not satisfied with the stipulated exclusive territory could seek another affiliation. The impact issue would therefore be solved.

Existing franchisees (with no exclusive territories) should be given an option either to negotiate a territory or accept the use of impact studies over the remaining life of their agreements. If they decide to go the exclusive territory route, they should first attempt to negotiate an agreement, and if that fails, there should be a binding arbitration provision that puts the matter before an independent arbitrator. Franchisees who are not satisfied with the findings of the arbitrator should then be allowed to terminate the franchise without payment of liquidated damages. Franchisees who decline the exclusive territory route an opt for the use of impact studies should have the right to terminate the franchise without paying liquidated damages if they do not agree with the findings of an impact study.

By immediately implementing this logical approach to solve the impact issue, hotel chains will quickly eliminate one of the major sources of disagreement between franchisor and franchisees.



**CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA**

May 2006	Number of Rooms	Occupancy Rate (%)		Average Room Rates (\$)		RevPAR (\$)		Room Supply % chg	Room Demand % chg
		2006	2005	2006	2005	2006	2005		
Nova Scotia Area	1,185	56.9%	52.2%	\$91.22	\$82.80	\$51.90	\$43.22	2.0%	11.2%
Halifax, NS	3,297	73.5%	76.7%	\$126.14	\$127.00	\$92.71	\$97.41	2.4%	-1.9%
Montreal Downtown	9,212	80.7%	64.9%	\$171.14	\$148.19	\$138.11	\$96.18	0.1%	24.5%
Montreal Area	4,693	71.4%	66.1%	\$106.86	\$103.69	\$76.30	\$68.54	1.5%	9.7%
Quebec City, QC	3,831	73.4%	69.0%	\$139.24	\$127.59	\$102.20	\$88.04	1.1%	7.5%
Quebec Area	5,199	55.5%	57.3%	\$109.89	\$109.76	\$60.99	\$62.89	0.6%	-2.6%
Toronto Downtown	12,773	80.5%	72.6%	\$191.37	\$161.43	\$154.05	\$117.20	4.2%	15.6%
Toronto North/East	6,369	71.9%	65.3%	\$117.81	\$106.31	\$84.71	\$69.42	0.0%	10.2%
Toronto Airport/West	7,714	71.7%	67.1%	\$116.63	\$110.65	\$83.62	\$74.25	9.2%	16.8%
Ottawa, ON	6,156	80.5%	76.9%	\$139.67	\$135.37	\$112.43	\$104.10	0.0%	4.7%
Ontario East	3,619	59.0%	56.1%	\$100.25	\$98.26	\$59.15	\$55.12	0.9%	6.0%
Windsor/ Ontario SW	2,978	53.7%	54.8%	\$101.24	\$99.45	\$54.37	\$54.50	0.0%	-2.0%
London/ Kitchener	5,703	62.1%	62.1%	\$99.00	\$99.85	\$61.48	\$62.01	1.5%	1.6%
Ontario North/ Thunder Bay	1,625	63.7%	61.3%	\$81.48	\$78.60	\$51.90	\$48.18	0.0%	3.9%
Ontario NC/ Sudbury	4,015	60.9%	56.4%	\$92.39	\$93.55	\$56.27	\$52.76	1.9%	9.9%
Niagara Falls, ON	8,342	58.0%	57.6%	\$128.18	\$128.20	\$74.34	\$73.84	4.0%	4.7%
Ontario Central	3,027	52.0%	56.6%	\$99.84	\$92.41	\$51.92	\$52.30	4.0%	-4.4%
Mississauga, ON	5,737	61.7%	61.8%	\$107.28	\$105.94	\$66.19	\$65.47	6.9%	6.7%
Winnipeg, MB	3,865	69.4%	61.8%	\$97.30	\$91.67	\$67.53	\$56.65	0.0%	12.4%
Regina/Saskatoon, SK	4,347	62.2%	67.3%	\$96.48	\$98.43	\$60.01	\$66.24	0.0%	-7.6%
Calgary, AB	8,016	76.2%	69.1%	\$127.60	\$112.77	\$97.23	\$77.92	0.4%	10.8%
Edmonton, AB	6,909	73.7%	63.7%	\$103.21	\$96.37	\$76.07	\$61.39	2.6%	18.6%
Alberta North Area	2,412	71.5%	66.6%	\$135.78	\$118.03	\$97.08	\$78.61	1.5%	9.0%
Alberta South Area	6,598	66.5%	66.1%	\$128.10	\$124.07	\$85.19	\$82.01	3.6%	4.2%
Vancouver Downtown	7,914	84.4%	77.9%	\$176.16	\$157.09	\$148.68	\$122.37	0.0%	8.3%
Vancouver/ Burnaby Area	2,154	77.6%	69.9%	\$113.45	\$104.18	\$88.04	\$72.82	0.0%	11.0%
Richmond-Surrey/ East Area	5,073	67.9%	66.7%	\$104.27	\$93.30	\$70.80	\$62.23	-1.0%	0.8%
British Columbia Area	6,183	51.1%	50.4%	\$111.76	\$106.10	\$57.11	\$53.47	2.3%	3.8%
Kamloops/ Kelowna Area	4,633	62.3%	60.9%	\$95.72	\$95.39	\$59.63	\$58.09	0.1%	2.3%
Vancouver Island	3,733	69.0%	69.1%	\$128.39	\$122.96	\$88.59	\$84.97	0.8%	0.6%
Provinces									
Alberta	23,935	72.3%	66.6%	\$121.32	\$111.89	\$87.71	\$74.52	2.3%	11.1%
British Columbia	29,039	69.2%	66.4%	\$132.23	\$120.72	\$91.50	\$80.16	0.8%	5.1%
Manitoba	4,673	65.9%	58.9%	\$94.38	\$89.57	\$62.20	\$52.76	0.0%	11.9%
New Brunswick	3,697	63.4%	61.1%	\$108.23	\$104.34	\$68.62	\$63.75	2.3%	6.2%
Newfoundland	1,895	64.2%	61.8%	\$122.48	\$123.61	\$78.63	\$76.39	5.2%	9.3%
Nova Scotia	4,482	69.1%	70.7%	\$118.53	\$118.95	\$81.90	\$84.10	2.1%	-0.1%
Northwest Territories	66	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	68,058	67.8%	64.6%	\$131.26	\$121.47	\$88.99	\$78.47	2.8%	7.8%
Prince Edward Island	889	51.4%	45.7%	\$107.01	\$95.21	\$55.00	\$43.51	0.0%	12.5%
Quebec	22,935	71.9%	64.1%	\$141.92	\$127.61	\$102.04	\$81.80	0.7%	12.9%
Saskatchewan	5,712	61.2%	65.3%	\$90.11	\$92.22	\$55.15	\$60.22	0.1%	-6.3%
Yukon Territory	585	52.6%	53.9%	\$92.68	\$83.62	\$48.75	\$45.07	0.0%	-2.5%
Canada	165,966	62.8%	60.4%	\$108.85	\$101.61	\$68.36	\$61.37	1.7%	5.6%

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HVS INTERNATIONAL - CANADA

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CANADIAN LODGING OUTLOOK HVS INTERNATIONAL - CANADA

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvsinternational.com
Web Site: <http://www.hvsinternational.com>*

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Vancouver Office
4235 Prospect Road
North Vancouver, BC
Canada V7N 3L6
(604) 988-9743
(604) 988-4625 fax

Toronto Office
6 Victoria Street
Toronto, ON
Canada M5E 1L4
(416) 686-2260
(416) 686-2264 fax

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SMITH TRAVEL RESEARCH

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OFFICE:
735 E. Main St.,
Hendersonville, TN 37075
(615) 824-8664



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OFFICE:
Anthony Pollard,
1206-130 Albert Street,
Ottawa, Ontario K1P 5G4
(613) 237-7149