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A Simple Solution to Impact

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 and 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 franchisors and franchisees. LH

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