

Welcome to IF Consulting's e-Newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

The Cost of Impact

A recent study found that existing franchised hotels lose on average 2.7 percent of revenue when a same-brand hotel opens nearby. Conducted by Arturs Kalnins, associate professor at the Cornell School of Hotel Administration, the study was based on the analysis of ten years of Texan hotel sales results.

Designed to measure the cost of "impact", occurring when a franchisor licenses a competing, same-brand hotel in a market where franchisees already exist, the study is believed to be the first of its kind. Instead of sampling from a geographic region, the study examines the impact of new chain hotels locating within a distance of 10, 15 or 20 hotels.

According to this investigation, the cost of impact, at 2.7 percent is substantial to existing franchised hotels, but not necessarily crippling. Interestingly, that figure is much smaller when a competing brand opens within the trading area, regardless of whether that brand is licensed by the same franchisor or a competing franchise organization.

Kalnins identified that impact declines with distance. He commented that hotels located more than 10 properties away from an existing operation, for instance, have a much smaller effect on revenues than do those in closer proximity. "With revenue losses calculated at 2.7 percent it's hard to argue for legal protection against impact," he said. "However, the results presented here do emphasize the need for franchisees and the franchise systems to take the possibility of impact seriously."

IF Comment

It should not come as a surprise that opening another franchise in a given territory will reduce the turnover of existing hotels. What may be surprising is that the cost of impact averages a mere 2.7 percent. However, many hotels are multi-million dollar investments and any loss of business is keenly felt by the franchisee.

Often more potent than the financial consequence is the effect on franchisee commitment and satisfaction. For this reason, franchisees often argue for guarantees of territorial exclusivity, either de facto or de jure.

Franchisors must understand this tension between network growth and franchisee satisfaction. The decisions of whether to offer exclusivity and whether to open new franchises in competition with existing franchisees are difficult ones. Network planning and site selection must take the potential effects on and responses of current franchisees into consideration.



Marketing Channel
Strategy Consultants
Maximizing shareholder value
through creating the best route
to market

IF Asia Pacific Pty Ltd
An International IF Company
ABN 38 970 704 536

390 St Kilda Road Melbourne
Victoria 3004 Australia
Telephone +61 3 9867 8822
Facsimile +61 3 9866 3969

email channels@i-f.com
www.i-f.com

USA
Europe
Australia
Latin America



Snippets

A Los Angeles County judge ruled that the Quiznos Sub restaurant chain of Colorado could not shut down two franchises in Long Beach, California and ordered the parties to arbitrate their dispute over the franchisees' exclusivity rights.

<http://denver.bizjournals.com/denver/stories/2005/08/29/daily32.html>

Hewlett-Packard CEO Mark Hurd has announced that the company will exercise an "iron fist" in teaming with channel partners that firmly commit to the IT giant. "For the people who want to play with us, we are going to play with them twice as hard. To the people that don't, we are going to get them out of here," Hurd said during a session with institutional investors at the Citigroup Global Technology Conference in New York.

<http://www.crn.com/sections/breakingnews/breakingnews.jhtml;jsessionid=GZGDMJLCLAEQOQSNDKHA?articleId=170701246>

In a move to expand its convenience store network, UK supermarket giant Tesco has bid for 30 of Wm Morrison stores on BP forecourts. The purchase could, however, be seen as a conflict with BP's existing forecourt deal with Marks & Spencer.

<http://www.datamonitor.com/~75eb9a1b9d2b4a3f8c3593bb8ed140b5~/industries/news/article/?pid=D6D1AA72-FA6F-472B-8C0A-D6BF13FFA42F&type=CommentWire>

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