



HOTEL BRAND VALUATION: SOURCE STRATEGIES' NEW MEASUREMENT SYSTEM

THE PRODUCT: A new Source Strategies, Inc. system can now measure the value of hotel brands accurately. 'Value' means the change in revenue per room that can be expected from almost any change in a hotel's brand name. The change is calculated on an index basis versus the market (pre- and post-change periods). The change in Revenue Per Available Room (REVPAR) is measured on an index basis to eliminate any influence on results from changes in market room-night demand, available room supply, or prices. Consequently, the only variable measured by the system is the effect of the brand name itself and a change of it.

This scientific measurement system is based on determining the exact effect on room revenues of changing the brand name on a specific hotel, alternatively:

- **by dropping an existing brand name and becoming unbranded (i.e. an 'Independent'),**
- **by adding a brand name to an unbranded, independent hotel,**
- **by dropping one brand name, and replacing it with another brand.**

So far, for six hotel brands, we have measured every instance where one hotel has changed its brand name. We measured the REVPAR performance versus the market before the change, and then after the change. This is effectively the 'scientific method' of isolating a single variable and its effect: what a brand name generates. We found that the results are statistically very reliable and are ready to apply them across the full range of brand names.

The data comes from the proprietary Source Strategies, Inc. database, which in turn, starts with audited hotel tax/revenue data from all hotels and motels in Texas, as reported the Texas State Comptroller. Revenue data, brand names and room counts are acquired on a quarterly basis and double-checked to multiple sources, including the AAA Tourbook, calls to individual properties, checks to each brand's database, etc. For each and every quarter since 1980, Source had made major corrections in the data, particularly in brand name by quarter, changes in room counts, combining multiple ownership reports into single property reports. Missing reports, and incorrect reports are covered by Source's quarterly estimates, subsequently overwritten with actual results when available from the Comptroller.

The database is updated quarterly and covers the period 1980 to the present. The process occurs every quarter and is slow and careful, with each entry examined versus history for reasonableness. It is supported by extensive, custom database software developed over the last 24 years.

The database is very large, covering almost 80,000,000 consumer purchased room-nights a year, about 8% of the U.S. total, and currently 399,000 rooms in 4,750 hotels and motels (98% of all state lodging revenues). Room count information is based on physical inspections of hotels and motels by the American Automobile Association as shown in their annual Texas Tourbook.

The data is effectively a census, not a sample. Further, data accuracy is supported by state Comptroller tax collection law and supporting auditing and enforcement systems and organizations.

THE IMPORTANCE OF BRAND NAME IN THE HOTEL INDUSTRY: U.S. consumer markets are highly ubiquitous, with brand success usually nationally based, rather than on local or regional tastes. This is true in the hotel industry. Brand is particularly important in the hotel business as more than half of all purchases are made in advance, from hundreds of miles distance from the hotel purchased. Further, on any given night, about 70% of guests in any hotel are new to that specific hotel, having never stayed in that hotel previously; however, they are not new to the brand name of the destination hotel, having stayed many times in that brand. About half of all purchases in Texas are from out-of-state, confirming the national basis of hotel brands.

PRODUCT DEFINITION OF THE SOURCE STRATEGIES BRAND VALUATION SYSTEM:

Currently, the system is at a 'Beta' level of development. We have valuations on six major hotel brands that are based on huge consumer samples of purchases, and on every case of name change for these six in Texas since 1990.

The range of brand values is from 48% for the most valuable brand, to 0% for one budget segment brand that converts existing motels. These findings quantify what a hotel operator can expect on the occasion of making a brand change. The '48% value brand' means that room revenues would decline by 48% on elimination of the brand name from a hotel (and all the major marketing support provided by the brand); this assumes the company would then operate as an independent hotel. Removing the 0% brand from a hotel should see no change whatsoever in the motel's room revenues.

The next step in development is to measure each major brand operating in Texas. With the measurement of most brands, we envisage developing a tiered hierarchy of the power of the brands. There will probably be five tiers or so, where the highest impact of a brand is about 50%, and the lowest impact a 'zero.' Brands will be positioned at 10 point increments: 50%, 40%, 30%, 20% 10% and 0%.

OUR PRODUCT POSITIONING. We believe we can offer proof as to the accuracy of our system of measuring hotel brand name Business Value. We expect to become the standardized source for Hotel Brand Value measurement questions. We would like to be audited, and then endorsed, by the key state and national, private and governmental organizations that deal with Hotel Business valuation.

Such organizations may include but not be limited to: The Appraisal Institute, the Comptroller of the Currency, the Treasury Department, state and national organizations of governmental appraisal districts, and others.

COMPETITORS TO SOURCE STRATEGIES, INC. The major competitor to Source Strategies, Inc.'s database is the database of Smith Travel Research. They collect revenue data from about 80% of U.S. hotels, voluntarily given, and then publish **aggregated results**. Contractually, they cannot publish individual hotel data or individual hotel brand data (a condition of their obtaining the data is keeping individual hotel and brand data confidential). Smith is highly respected, and operates nationally and internationally. PKF, another competitor, has been absorbed by Colliers International. It has dropped its own database and now uses aggregated Smith data. It predominantly focuses on hotel brokerage, but does offer hotel market and feasibility studies.

SOURCE STRATEGIES, INC. is a highly respected firm endorsed by the Texas Lodging Association, and the leading supplier of financial feasibility studies to the banking industry in Texas. Source annually produces up to 150 financial feasibility studies of proposed hotels.

Since 1987, Source has analyzed the Texas lodging industry for *TEXAS TOURISM*, an arm of the Governor's Office of Texas; reports are posted at <http://travel.state.tx.us/default.aspx> and at Source's web site www.SourceStrategies.Org

Source publishes the *Hotel Brand Report* newsletter and the *Texas Hotel Performance Factbook*. Its president, Bruce Walker, regularly appears as an expert witness in hotel disputes and claims. The firm is also a regular supplier of Value Opinions to Wells Fargo NA, and provides data to most Texas hotel appraisers.

**WE WELCOME INQUIRIES FROM HOTELIERS, APPRAISERS,
GOVERNMENT, ACADEMIA, ASSOCIATIONS AND OTHER
INTERESTED PARTIES.**