

University of Maryland

Robert H. Smith School of Business

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Analysis of Proposed Hotel and Conference Center in Downtown Fredrick, MD

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EXECUTIVE SUMMARY

The City of Frederick has joined with PALS and the University of Maryland Smith School of Business to assess a proposed hotel and conference center planned for downtown Frederick. They are particularly interested in assessing the demand for the meeting space planned, and better understanding the likely economic impacts of businesses and nonprofit organizations making use of the conference center. An analysis of the trade show and events industry was conducted to provide additional background as the City and its private partners continue to develop their plans and goals for the project. Two conference centers in similar cities were analyzed to assess likely economic impacts and best practices for marketing strategies. Finally, the regional competitive landscape for conferences and private event venues was analyzed, and opportunities for business development were identified.

PROJECT OVERVIEW

The City of Frederick, MD is finalizing plans for a new hotel and conference center to be built in downtown Frederick. A site has been selected, a developer chosen, and a general architectural plan has been approved. The facility is currently planned as a 207-room hotel with 23,459 GSF of meeting space, to be privately operated under the Marriott brand. The development is currently structured as a public-private partnership, with ultimate ownership and operation by a private company. The City's objective is for this project to be profitable as a stand-alone business, and for the community to experience a net positive economic benefit from the construction and operation of the facility. The goals of the project as adopted by the City are stated below.¹

Project Goals

- Service business and citizen needs
- Drive economic impact in terms of tax revenue generation and job creation
- Induce tourism, overnight stays, and conference activity
- Be a catalyst for continued downtown revitalization and growth

To assess the need for and impacts of the proposed development, two feasibility studies were commissioned. The initial feasibility study, completed by Pinnacle Advisory Group in 2010, found that there would be sufficient existing and induced demand for an upscale, 200-room hotel in downtown Frederick.² The same study also forecasted a positive cash flow stabilizing in year 3 at \$3.5M net operating income (18.9% of revenue), as well as a forecasted total economic impact of \$56-\$70M per year in the first five years of operation. A second study conducted by Crossroads Consulting Services and Hospitality and Gaming Solutions in 2012 also confirmed sufficient demand for the facility, forecasting similar financial results and a \$25M net positive economic impact from the facility operations.

Much of the analysis and project planning has been completed at this stage, but the City is seeking additional guidance as they move forward with the planning. In particular, they are seeking a more in-depth understanding of the meetings and conference industry, and more information on the local demands for conference space. They are also interested in finding other developments in similar cities that can provide ideas on how to plan and market the new facility as well as indicate what types of economic impacts may result from the project.

¹ City of Frederick - Hotel RFP14-J Proposal Selection Workshop – 2014
<https://www.cityoffrederick.com/DocumentCenter/View/4454>

² Pinnacle Advisory Group - Market Analysis, Cash Flow Projections, and Strategic Recommendations for a Proposed Downtown Hotel and Conference Center – January, 2010
<https://www.cityoffrederick.com/DocumentView.aspx?DID=806>

CURRENT PERFORMANCE IN THE TRADE SHOW AND CONFERENCE INDUSTRY

The years following the 2008/2009 financial crisis have produced low growth in this industry. Sales volumes in the trade show/conference planning industry track closely to the performance of the overall US economy, and thus have been depressed as the country slowly rises out of the recession. However, recent economic indicators are positive, with the unemployment rate significantly improved and overall economic growth stabilized. As a result of reductions in volatility in the economy, steady growth in corporate sector, and increases in disposable income, the conference industry has grown steadily. The industry has gained momentum for strong future performance with low industry risk, though competition within the industry threatens to exert a downward pressure on prices and profit margins.

The biggest turnaround has resulted from the growth in the corporate sector. Increased corporate profits have led to inflated demand for events and trade shows as companies seek to advertise new products/services and showcase discussions amongst their peers.³ Overall, economic growth has led to the expansion of firm's marketing budgets to host and/or send representatives to conferences/conventions to participate in industry/firm wide events.

KEY INDUSTRY DRIVERS

Key drivers that must be considered in determining outlook for the industry are disposable income, domestic/international travel, and corporate profit. It is expected that per capita disposable income will increase by 1.6% to \$37,352 in 2014 and continue to rise in the near future (Table 1). The availability of disposable income determines one's ability to purchase goods and/or services, and is a key determinant of sales volume in the meetings industry. As incomes increase, consumers are more likely to spend to attend conferences, and as incomes shrink or stagnate consumers will cut their spending on unnecessary travel. It is also useful to consider factors that impact disposable income, such as the rising prices of goods/services. Another driver to consider is the amount of domestic and international travel, which correlates strongly with corporate profit. As firms grow and produce positive returns, availability of funds and resources increases, which leads to more events and functions to be hosted at conference centers.

Table 1: Historical and Projected Per Capita Disposable Income (IBISWorld Business Environment Profiles – September, 2014)

Year	\$	% Change
2000	31,524.0	3.86
2001	32,077.0	1.75
2002	32,755.0	2.11
2003	33,344.0	1.79

³ IBISWorld. 2014. "Industry Market Research> US Industry Reports (NAICS) > Hotels & Motels"
<http://clients1.ibisworld.com.proxy-um.researchport.umd.edu/reports/us/industry/competitivelandscape.aspx?entid=1661#BTE>

2004	34,223.0	2.63
2005	34,428.0	0.59
2006	35,461.0	3.00
2007	35,870.0	1.15
2008	36,082.0	0.59
2009	35,600.0	-1.34
2010	35,705.0	0.29
2011	36,294.0	1.64
2012	36,759.0	1.28
2013	36,771.0	0.03
2014	37,352.0	1.58
2015	38,305.0	2.55
2016	39,186.0	2.29
2017	40,294.0	2.82
2018	41,366.0	2.66
2019	42,312.0	2.28

INDUSTRY OUTLOOK

The conference center industry has seen an increase in occupancy over the past few years and that trend is expected to continue into the future as the industry is predicted to expand at an average annual rate of 2.7% over the next five years³. The main drivers of industry growth are the improving economic conditions in the US economy and the increased use of technology.

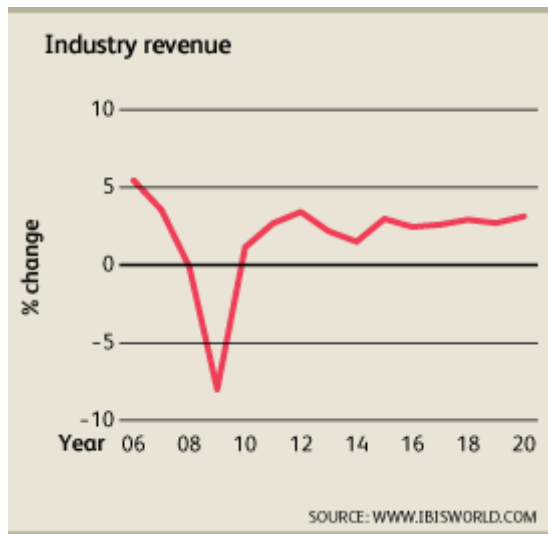


Figure 1: Revenue Growth Trends (IBISWORLD)

The overall improvement in the US economy is projected to lead to bigger corporate budgets for meetings and events, which in turn is expected to generate an increase in domestic and international travel to attend those events. The Social, Military, Educational, Religious, and Fraternal (SMERF) market segment, which remained steady during the economic downturn, is expected to increase spending on functions as the uptick in the US economy positively affects their members.

Although technology could be viewed as a substitute to meeting in person, the use of technology has not been seen as detrimental to live conferences. If anything, the increased use of technology such as social media has put new people in touch with each other to create discussions and desires to meet in person at events. The use of technology and the internet has also created more visibility of the conferences/events because it allows event organizers to reach wider audiences by targeting and attracting potential attendees. Additionally, with the ability to connect virtually, conference organizers expect to show live video feeds of the conference and conference goers given Wi-Fi availability at the site.³

Also, with the improvement in the US economy and an increase in travel, the US hotel industry is expected to see growth over the next five years. One segment that has been particularly successful recently has been hotel and conference center venues. Hotel and conference center facilities have been outperforming hotels in occupancy and profitability according to the International Association of Conference Centers.⁴

FIVE FORCES INDUSTRY ANALYSIS

BARRIERS TO ENTRY - MEDIUM

Barriers to entry are medium, with medium capital requirements. Economies of scale are limited, but are seen in advertising for large hotel chains and in supplier relationships. There are little to no buyer switching costs and customers generally value low cost in this industry. Another barrier to entry to consider is that it is important to have expertise and experience running hotels and hosting/organizing large-scale conferences/events. It is also important to note that development standards for the historic district, overseen by the Frederick Historic Preservation Commission, could limit the growth in and around the conference center.

THREAT OF SUBSTITUTE PRODUCTS OR SERVICES - LOW

The main threat to the conference and meetings industry is emerging videoconferencing services. As technology progresses the availability and accessibility of various platforms become heavily used and relied upon. The industry must adapt to and understand those changes. Social networking platforms (e.g. LinkedIn, Facebook) and virtual conferencing platforms can initiate contact but do not eliminate the need for face-to-face interaction. Understanding that progress is built on relationships, conferences, and events are still necessary. Therefore, incorporating technology into the mix can differentiate a center from other players in the industry. A good example is the recent Apple product launch of the iPhone 6 and Apple Watch in September

⁴ Alderton, Matt. 09 Aug. 2013. "Demand for Conference Centers Grows, Report Reveals. Research and White Papers. <http://www.successfulmeetings.com/news/research-and-white-papers/demand-for-conference-centers-grows,-report-reveals/>

2014, an event that thousands attended in person and millions streamed online and participated in via Twitter and Facebook.

BARGAINING POWER OF CUSTOMERS - MEDIUM

Customers range from large companies to private individuals, with little existing concentration or cooperation. In general, buyers tend to prioritize convenience, quality, and price in this industry. Differentiation is achieved by competing in quality, location, service, cleanliness, and special amenities. Given that conferences and events are not generally integral to the operations of organizations, customers can easily cancel or postpone an event, giving them bargaining power. They may also decide to hold their event at their own facility, if they have an appropriately sized and configured space.

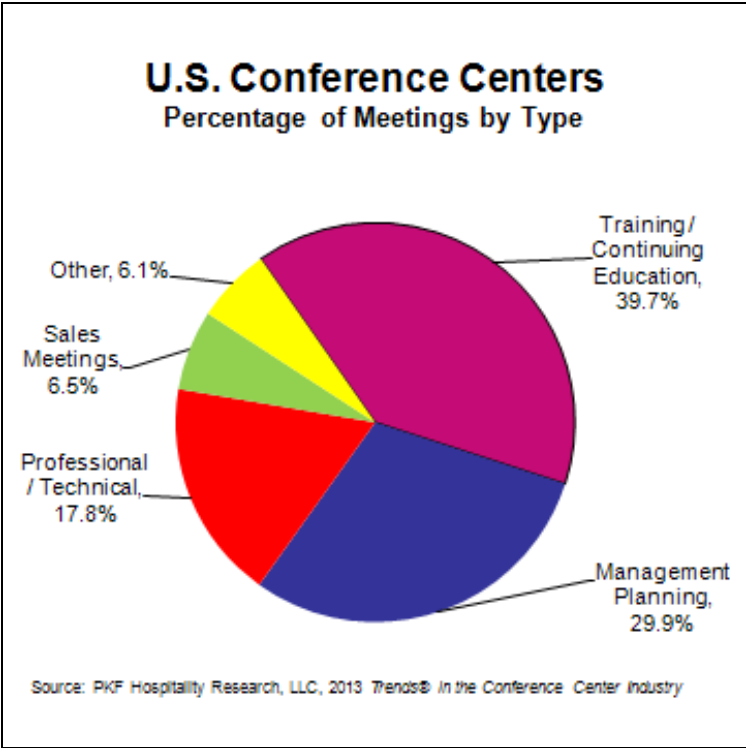


Figure 2: US Conference Centers Percentage of Meetings by Type

BARGAINING POWER OF SUPPLIERS - LOW

Suppliers in this industry include cleaning services, laundry services, caterers, event planners, and in some cases trainers, speakers, and entertainers. There is low supplier concentration and high competition for substitute products. In addition, this industry is an important customer for suppliers, who generate varying profit margins according to their levels of differentiation. In general, suppliers are numerous and replaceable, resulting in low supplier power.

INDUSTRY RIVALRY - MEDIUM

Concentration within the conference center industry is low. The four largest firms account for less than 20% of the industry revenue, allowing many other smaller firms to operate within the industry. Large firms (more than 500 employees) only account for 4.3% of industry, while 83.8% of firms are very small (less than 20 employees).³ In order to be successful within the industry, the firm must have the following strengths: ability to manage external contracts, maintenance of excellent customer relations, access to highly skilled workforce, management of seasonal production, ability to quickly adopt new technology. Competition within the conference center industry is high. Because there are so many small firms, price and quality of service drive competition. However, competition usually stays between firms of equal size; larger firms compete with each other while smaller firms compete with each other.

REGIONAL COMPETITORS

CONFERENCE COMPETITION

Companies in the greater Baltimore-Washington area have many venues available to them that are capable of hosting conferences, though none of them are located in the City of Frederick. Figure 3 depicts the region and comparable conference center facilities, showing that no competitors exist within a 25-mile radius of Frederick. This void of conference facilities causes local companies and organizations to look elsewhere for their event needs.

Figure 3: Existing Meeting Spaces in the Frederick Region

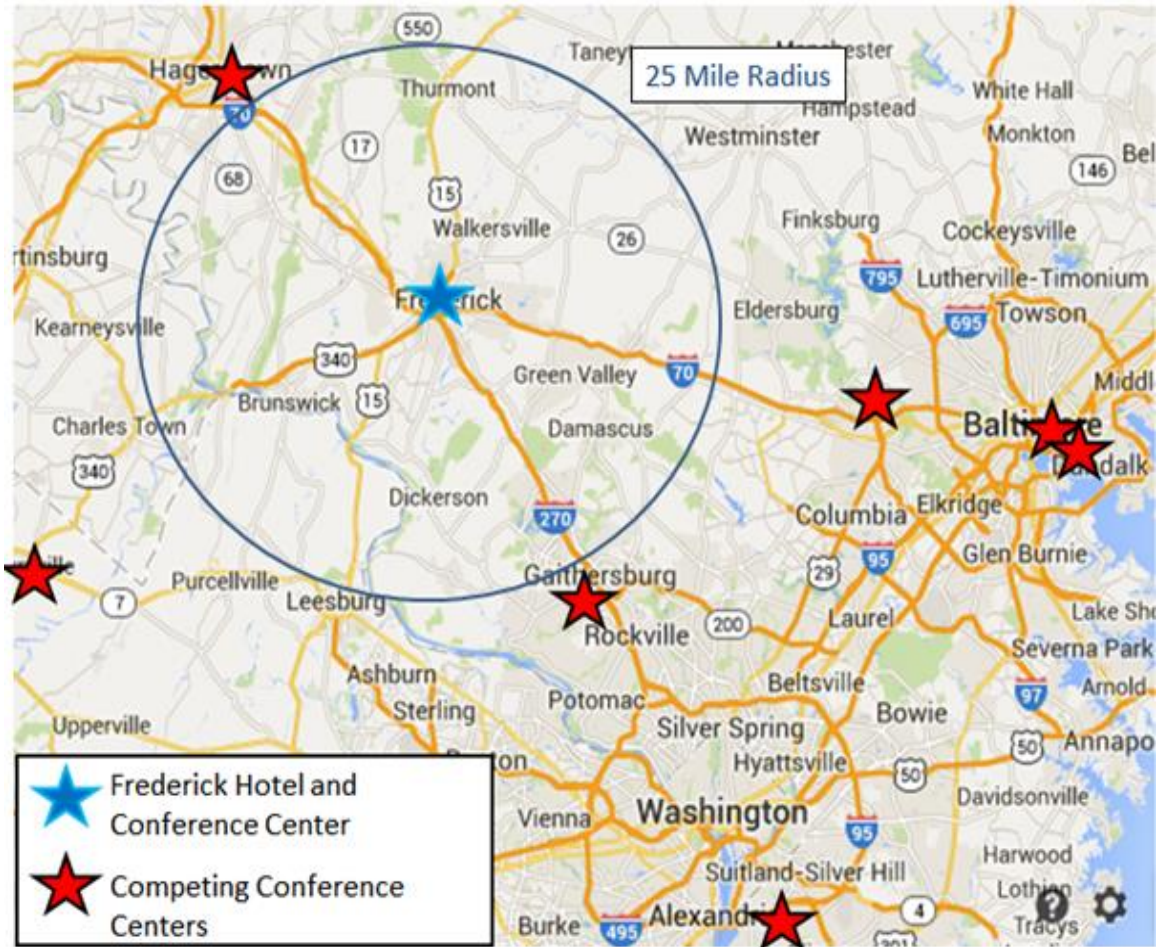


Table 2: Existing Meeting Spaces in the Frederick Region

Location	Max Occupants	Guest Rooms
Johns Hopkins University Conference Centers	500	Yes
Legg Mason Tower	475	No
UMBC	300	Yes
Oxon Hill	300	No
Carter Hall Conference Center	80	Yes
Clarion Hotel & Conference Center Hagerstown	3000	Yes
The Universities at Shade Grove	500	No

HOTEL COMPETITION

The proposed project will also stand out among its conference center peers in its connection to a full service hotel, which is not common among all competitors. The hotel will serve as the only large upscale lodging option in the downtown Frederick area as well as the only full service hotel in Frederick. Although many hotels exist around Frederick, there are none located downtown

that are situated to capitalize on the growing popularity of downtown Frederick and its unique culture. Existing hotels outside of downtown Frederick include the Hampton Inn & Suites Frederick-Fort Detrick, Country Inn & Suites, Motel 6, Econo Lodge, and Days Inn.

WEDDING COMPETITION

Aside from conferences and meetings, the Frederick Hotel and Conference Center will be poised to capture a portion of the Frederick wedding market. Only one popular wedding venue exists in downtown Frederick, the Delaplaine Visual Arts Education Center. Figure 4 shows venues in and around Frederick, also presented as a list in Table 3. When completed, the new Frederick Hotel and Conference Center will stand out not only because of its location but also because of its availability for hosting overnight guests.

Figure 4: Existing Wedding & Private Event Venues in the Frederick Region

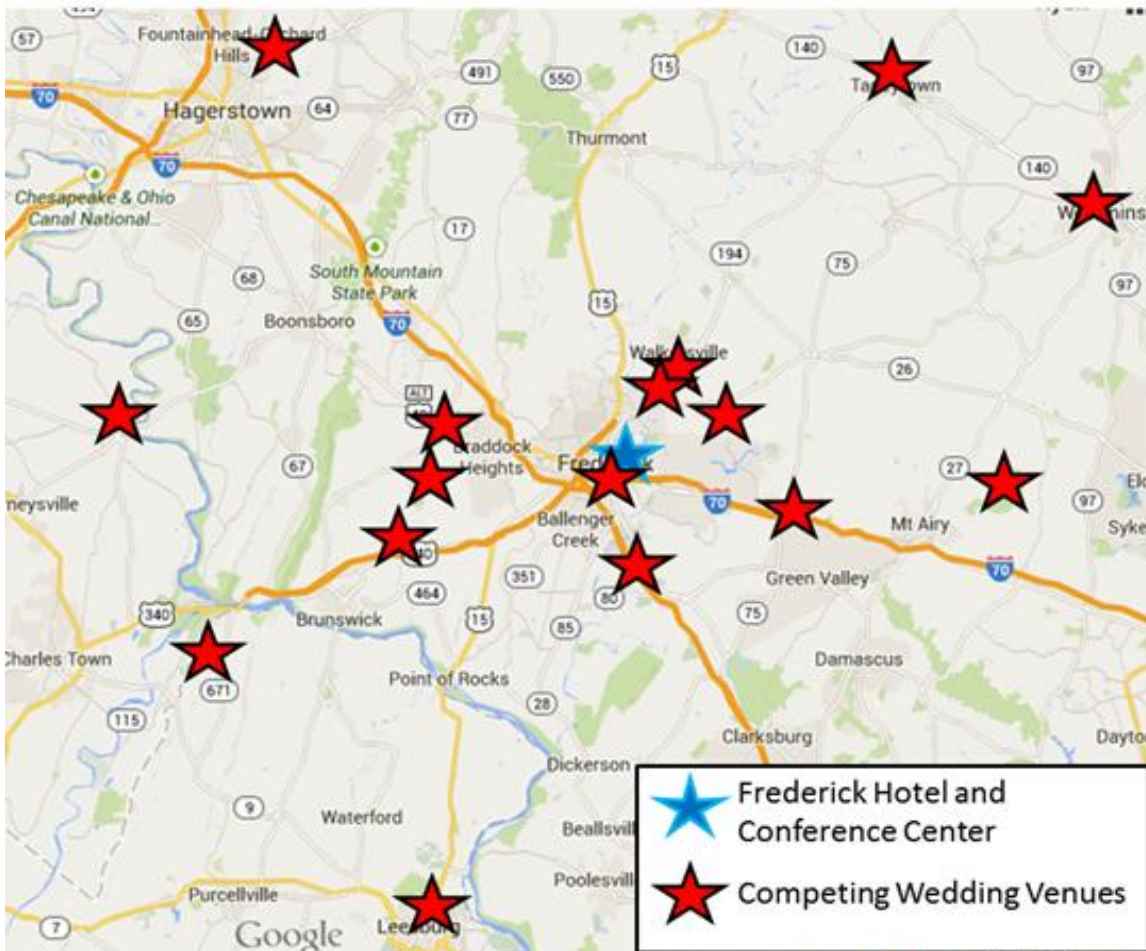


Table 3: Existing Wedding & Private Event Venues in the Frederick Region

Location	Downtown Frederick	Overnight Guests
Morningside Inn	No	No
Holly Hills Country Club	No	No

Circle D Farm	No	No
Cortland Mansion	No	No
Stone Manor Country Club	No	No
Morven Park	No	No
Rockland Estates	No	No
Antrim 1844	No	No
Hollow Creek Golf Club	No	No
Crown Rose Estate	No	No
Walker's Overlook	No	No
Holiday Inn Conference Center at FSK Mall	No	Yes
Ceresville Mansion	No	No
Clarion Hotel & Conference Center	No	Yes
Stone Manor Vineyard & Orchard	No	No
Delaplaine Visual Arts Education Center	Yes	No

ECONOMIC IMPACTS OF SIMILAR PROJECTS

To better understand the likely economic impacts of building a hotel and conference center in Frederick, an analysis of two demographically similar cities that have built and operated a hotel and conference center has been completed for comparison. Provo, Utah and Owensboro, Kentucky, both realized significant economic benefit to their local communities.

Provo, Utah has a population of 116,288 (in 2013) and is located 45 miles south of Salt Lake City, which has a 1.1M population in its metro area. Provo built a Marriott Hotel & Conference Center that is an upscale, semi-full service hotel with 330 rooms with an attached conference center, fitness center, indoor/outdoor pool and onsite restaurant. It has 28,000 square feet of meeting space and 21 breakout-meeting rooms. A complementary facility was constructed directly adjacent to the hotel in May 2012 called the Utah Valley Convention Center, which has yielded a significant positive economic impact across several industries in Provo. This center was financed via a 30-year bond issued by Utah County totaling ~\$40.15M.

In 2013, the Utah Valley Convention Center in Provo generated over \$10M in economic impact.⁵ Over 9,000 hotel bookings were contracted related to conference center use, generating an estimated \$5.01M in economic impact. The conference center hosted 223 events with more than 110,000 attendees in total. The majority of revenue was earned in the months of April, May, September, and December. The Utah Valley Convention Center provided economic impacts to the local community within the first seven months of operation as well. Some documented impacts include: Utah County hotel tax revenue increased 20%, restaurant tax revenue increased 11%, and car rentals increased 4%.⁶ The estimated overall impact was \$6M, with \$2.8M coming

⁵ C.H. Johnson Consulting, Inc. - UINTAH CONFERENCE CENTER FEASIBILITY ANALYSIS – April, 2013 http://www.co.uintah.ut.us/comm/Uintah%20County%20Conference%20Center%20Feasibility%20Analysis_4%2018%2013%20FINAL.pdf?orgid=226704

⁶ Convention, Sports, & Leisure International - Updated Market Analysis for a New Downtown Provo Convention Center – March 2009

directly from the convention center. Fifty percent of new money was spent from out-of-state, bringing in non-local businesses to the convention center.

Owensboro, Kentucky has a population of 58,416 (in 2013) and is located 107 miles southwest of Louisville. The City built the Owensboro Convention Center, which is an upscale facility with a 48,000 square foot ballroom and meeting space and includes food and beverage, audio visual, internet, electrical and trade show decorating services.

Owensboro has showcased its local identity to attract new business to the convention center. Its convention center was the first in the geographic area, serving many larger cities nearby and with access to various forms of public transportation. Because of these strengths, the downtown center created jobs and growth in the area, as well as added businesses and attractions. The City's ongoing objective is for the convention center to grow and revitalize their town through branding their hometown feel.

Provo and Owensboro employed specific strategies that enabled them to achieve success with their convention centers, within the cities and the local communities, many of which Frederick could also use to gain customers for their convention center.

Provo employed a comprehensive advertising strategy that successfully brought new business to their convention center. They started by focusing on local businesses and wedding publications and created digital signage advertising on the main freeway. On a national level, they put ads in industry publications such as "Small Marketing Meetings" and "Trade Show Executive," as well as a monthly newsletter that was distributed to clients. Another large piece of their strategy was conducting sales and phone "blitz," targeting specific organizations and cold calling potential customers, both in an attempt to generate new business. In addition, the Provo convention center found that attending trade shows was effective in generating new business, as well as networking with event planners.

Owensboro brought in experienced and well-connected talent to run their marketing efforts for the convention center. One of the main goals of building the conference center was to help revitalize the City, and they used the images of an up and coming community with new attractions but with a historic feel to attract customers. In addition to leveraging the historic yet up-and-coming image, the convention center currently uses a well-established event planning organization called Global Spectrum, which has its own sales/marketing team that organizes events at their facility. Their expertise provides added value by bringing an outside perspective that can grow business. The convention center's website and mobile apps, and its social media connections have made it an interactive experience for all its current and potential visitors.

CONCLUSIONS AND RECOMMENDATIONS

During the course of our comprehensive analysis and discussions with conference centers in the local region, we have determined that the greatest demand for the proposed Frederick conference center will come from nonprofit organizations. Similar conference center locations in Bethesda, Rockville, and Baltimore experience approximately a 90/10 split between nonprofit and corporate events. The nonprofit organizational makeup includes a variety of community organizations, academic institutions, and religious denominations. Table 4 lists existing conferences and events that are held regularly in regions around Frederick.

TARGET MARKET

We have isolated two primary target industries within the nonprofit segment that have the largest demand and subsequent potential for revenue. The first target industry is the education sector. Public schools and collegiate level institutions host numerous social and professional events throughout the year, and will generate steady business for the conference center. Major local institutions include the Frederick County Public Schools, Frederick Community College, Hood College, Mount St. Mary's University, Hagerstown Community College, and McDaniel College.

The second target sector is the biomedical/health science industry. There are a significant number of nonprofit professional organizations and established firms in this field that hold conference events in and around the Washington, D.C./Baltimore metropolitan area. This is a fast paced industry with emphasis placed on up-to-date practices, clinical research studies, and new medical technologies, making a steady market for annual conferences and training events.

There are currently over 160 biotech firms in the I-270 corridor, also known as "DNA Alley." With the BioMaryland 2020 initiative, this number is expected to grow, which could significantly impact the region. This initiative, sponsored by the state of Maryland, will make a 10-year \$1.3 billion investment in life sciences. The program is a structured investment to develop and enhance the existing bioscience cluster in the I-270 corridor. This infusion of money in the region will prompt additional discussions and forums to take place in the region, an opportunity for the new conference center.

Currently, the biggest conferences for life science topics are held in the Hyatt Bethesda and Marriott North Bethesda due to their proximity to the National Institutes of Health and the U.S. Food & Drug Administration. Frederick, with its proximity to the National Cancer Institute at Fort Detrick, can compete for existing conferences and draw more business from across the nation. By attracting health and biotechnology conferences and events to Frederick, the City will not only benefit from the income generated by individual events, but will raise its profile as a destination for businesses and professionals in this growing sector.

While it is essential to make a strong marketing effort to initially attract customers it will be even more important to keep them coming back. In our interviews with several conference centers, we discovered that approximately 70% of their business is repeat businesses, while 30% of the business is new. A concentrated effort should be made to improve and maintain customer relations through interactive mediums, such as surveys, business development outreach, and high quality customer service through dedicated departments.

Marketing tactics should include a mix of traditional modern marketing methods such as websites, social media, and direct electronic marketing. Direct marketing, including cold calling, will be the most effective way to gain new customers when the facility opens. Local organizations must be contacted to raise awareness and communicate the value of the new conference center. Local event planners for social events such as weddings and other private events should be contacted and invited to tour the facility. The hotel should also consider contracting with a dedicated corporate event planning organization, which would have the dual benefits of accessing their client list and providing event planning services for new customers.

As the hotel and conference center constructs its marketing strategy and builds awareness, they should highlight their excellent location. Frederick is conveniently located near two large cities, affording customers easy travel to the facility. Downtown Frederick boasts numerous shopping and dining attractions, and has a rich history and vibrant community. There are nearby wineries, orchards, breweries, and Civil War heritage sites for visitors to explore. The attractions and atmosphere of Frederick will be the most valuable asset of the new hotel and conference center.

APPENDIX

Table 4: Existing Events and Conferences in the Frederick Region

<u>Conference/Organization</u>	<u>Location</u>	<u># of Attendees</u>	<u>Type</u>
Biotherapeutics Analytical Summit	Baltimore	175+	Nonprofit/Bioscience
CURE-UAB: Congress of Urologic Research and Education on Aging Underactive Bladder	Bethesda	100+	Nonprofit/Bioscience
Executive Decision Making	Bethesda	100+	Nonprofit/Bioscience
Annual Conference on the Science of Dissemination and Implementation	Bethesda	300+	Nonprofit/Bioscience
Annual Conference on Vaccine Research	Bethesda	300+	Nonprofit/Bioscience
Annual Global Conference on Pharmaceutical Microbiology	Bethesda	300+	Nonprofit/Bioscience
Biopharmaceutical Associations	Rockville	200+	Nonprofit/Bioscience
Insurance Firm	Rockville	300+	Nonprofit/Bioscience
UPCEA Mid-Atlantic Regional Conference	Bethesda	100+	Nonprofit
Fraternity Groups	Rockville	100+	Nonprofit
Autism Organization	Rockville	100+	Nonprofit
Fire & Rescue Services	Rockville	150+	Nonprofit
Public School	Rockville	300+	Nonprofit
Women Doing Business Conference	Bethesda	500+	Nonprofit
Small Press Expo	Bethesda	500+	Nonprofit/Art
FAA-EASA International Aviation Safety Conference	Bethesda	100+	Aviation
The Evidence Based Reimbursement Summit	Bethesda	150+	Corporate
Development and Community Partnerships	Rockville	150+	Corporate
Construction Companies	Rockville	100+	Corporate
Consulting Firms	Rockville	100+	Corporate
Real Estate Agency	Rockville	75+	Corporate
Local Hospital	Rockville	150+	Nonprofit and Corporate