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## **XXX Hotel and Conference Center City, State**

Market Supply and Demand Assessment  
Departmental Performance Projections  
Space Programming

Submitted to:

Mr. XXX XXX  
President  
XXX, Inc..

Prepared by:

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October, 2013

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## 1. EXECUTIVE SUMMARY

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### 1.1. Introduction and Scope

In July 2013, XXX, Inc. (“XXX”) engaged Pompan Hospitality Global, Inc. (“PHG”) to complete an analysis of the group business supply and demand for the XXX, State market (“Study”). The purpose of the Study is to fully understand the competitive environment, specifically identify demand generators (potential customers) that seek a conference center product, outline the ideal space program based on customer input and industry experience, project package volumes and revenues, project associated operational expenses and provide an actionable sales and marketing implementation plan.

This report presents a narrative of the Study’s findings and conclusions including:

- ▶ An assessment of the current local competitive supply (XXX Hotels and other regional Conference Centers);
- ▶ A detailed description of each competitor including comparisons of facility and amenity offerings, pricing and a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis;
- ▶ Sample contracts or proposals from each competitor;
- ▶ Results of an online survey, and two customer focus groups concentrating on customer buying habits and preferences, frequency, size and locations of meetings and the appetite for and design of a new conference center meeting venue in XXX;
- ▶ Identification and profile of current and potential Demand Generators with meeting business volumes, preferred venues, meetings spend, meeting type, season and history;
- ▶ A list of customers developed by PHG research with contact information and approximate business potential;
- ▶ A set of recommendations for the construction of the conference center portion of the hotel with quantity and size of meeting rooms by type (space programming), meeting room layout, features and amenities including environmental control functionality, locations of concierge areas, casual meeting areas, break stations, business center and back of house requirements, etc.;
- ▶ Projection of package revenues and associated departmental expenses with package volume and pricing by package type, meeting package inclusions and allocations based on market and industry standards;
- ▶ Preliminary Sales and Marketing Roadmap with a set of actionable recommendations, proposed positioning statement and value propositions tied to an organizational structure and timeline for the development of a sales and marketing deployment strategy.

### 1.2. Methodology

We approached this project under the assumption that adding a four star/diamond hotel with an International Association of Conference Centers (“IACC”) certified conference center component to the existing XXX market would be a value to the city and have market demand so that a positive financial performance would be achieved. We knew prior to our research the following:

- ▶ There are no four star properties in Downtown XXX;
- ▶ There were very few IACC certified conference centers in the market and the most local one, XXX, has lost their commitment to the conference center concept;
- ▶ The military, and in particular, the military, has a major presence in the market;
- ▶ That XXX has a positive track record of building and operating exceptional hospitality assets in Hampton Roads.

Our research focused on proving or disproving our initial assumption by understanding the market demands and identifying demand generators that would consider the subject property for its future meeting business.

Our conclusions and findings rely upon primary and secondary research, which included but was not limited to conversations with representatives from the competitive set hotels in the area, customers, local government officials and others familiar with the lodging and meeting demand in the Hampton Roads market. This data assisted in determining the potential lodging and meeting demand for a new conference center hotel. Secondary research sources are noted throughout the study where applicable.

We inspected the site and the surrounding area to determine its suitability for the development of the conference center hotel as envisioned. We examined such factors as general aesthetics, the supportive nature of the local neighborhood, nearby market and regional access to the area.

We analyzed the current local competitive supply in relation to the product that is offered to the market and the selling style for each competitive property. We conducted an analysis of the strengths, weaknesses, opportunities and threats of the competitive set from the meeting customer's perspective to determine the meeting market's current offerings and potential future needs.

Based on the insights gained from customer input and industry best practices, we assessed the overall design of the project. We reviewed the proposed features and functionality to determine its' suitability for meeting the market's needs and forecasted the financial performance for the conference center.

Finally, and perhaps most importantly, we conducted interviews with top local demand generators to assess their potential business levels and their desire, need and potential use of a new four star conference center hotel in the market.

### **1.3. Major Assumptions**

The findings, conclusions and recommendations in this report are based in part on the following major assumptions:

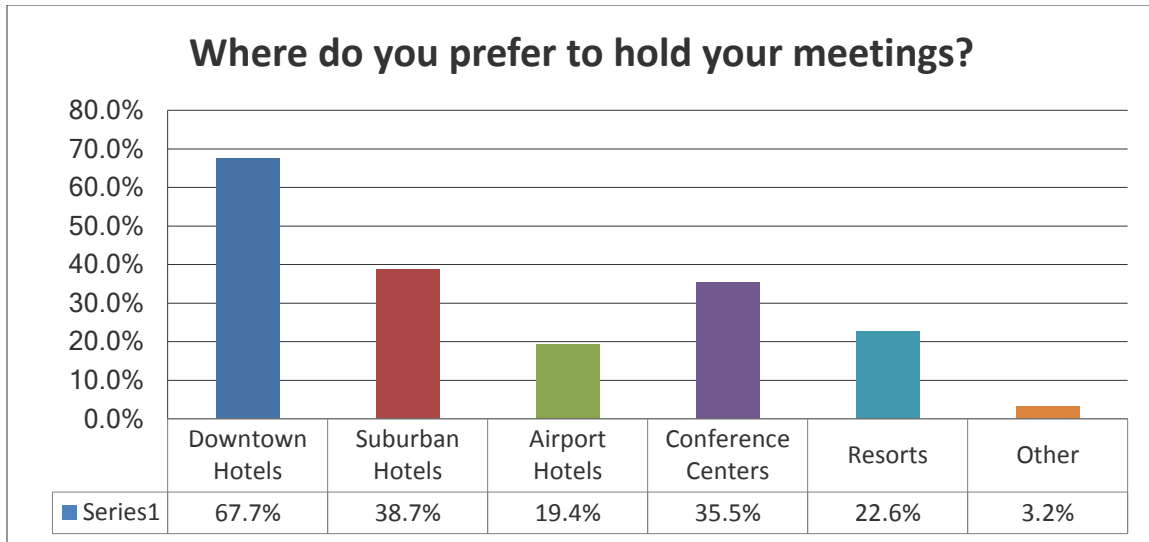
- ▶ The property, to be located at XXX and XXX Streets, will be built and fully operational by January 2016;
- ▶ The property will be designed and furnished as a four star/diamond property;

- ▶ XXX will be fully committed to the conference center standards and guidelines as established by the International Association of Conference Centers (“IACC”);
- ▶ The property will be certified by IACC as an ancillary conference center within the hotel;
- ▶ The property will have approximately 50,000 net sq. ft. of banquet and meeting space, with approximately 20,000 net sq. ft. dedicated to the conference center concept;
- ▶ The sales and marketing team will be in place at least six months prior to opening – fully selling and marketing the conference center;
- ▶ The team will be able to fully articulate the points of differentiation for an IACC approved conference center hotel;
- ▶ The hotel will hire and provide training to ensure an experienced and strong conference center sales and operations team provides an excellent meeting product and service to effectively compete in the XXX established market;
- ▶ The hotel will be professionally managed and supported by a fully qualified, reputable management company;
- ▶ Audio visual services will be contracted to a third party (i.e. PSAV). This is a more conservative approach with slightly lower profits than a self-operated AV department.
- ▶ Parking will be owned and operated by the city and the city will keep parking related revenues;
- ▶ The property will take full advantage of the marketing programs of the subject hotel’s brand and stay compliant with the subject hotel’s brand standards;
- ▶ There will be no other additions to the competitive supply of hotel accommodations other than may be described in this report; and,
- ▶ There will be no significant geopolitical or other disruptions to the economy of the country during the term of the projections contained herein.

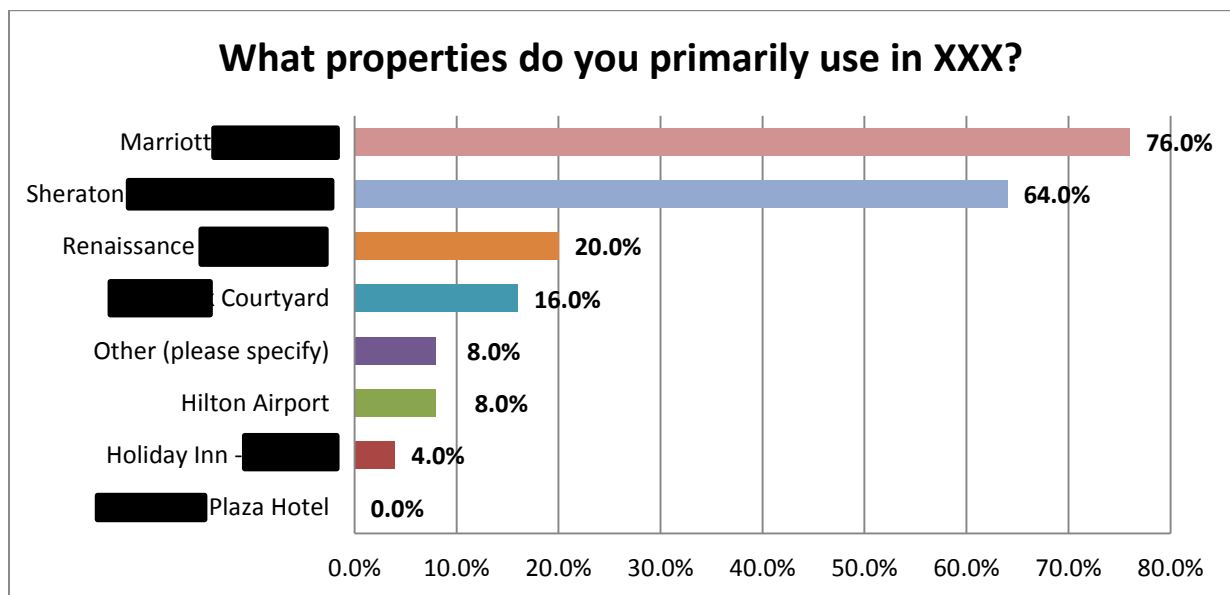
#### **1.4 Summary of Findings**

Based on the information collected during our market research, customer interviews and subsequent analysis, it is our opinion that the subject hotel and conference center property will be a highly welcomed facility to the Downtown XXX and XXX meeting market. Upon completion, the property as currently designed will be the only four star hotel in XXX, have the largest hotel ballroom in the State of XXX and have a recognizable product in the market for customers that seeks an IACC quality meeting environment.

Online survey results show that the meeting planners strongly preferred a downtown location (67.7%). The availability to have access to evening entertainment, dining options, shopping and other activities for the attendees is an important component in the decision making process. Our review of the competing hotels in the market and surrounding area shows that the Marriott XXX and Sheraton XXX hotels are selected most often. The subject property’s location at the corner of XXX Street and XXX Street will be attractive to the meeting planners as it is close to the waterfront, shopping and restaurants.



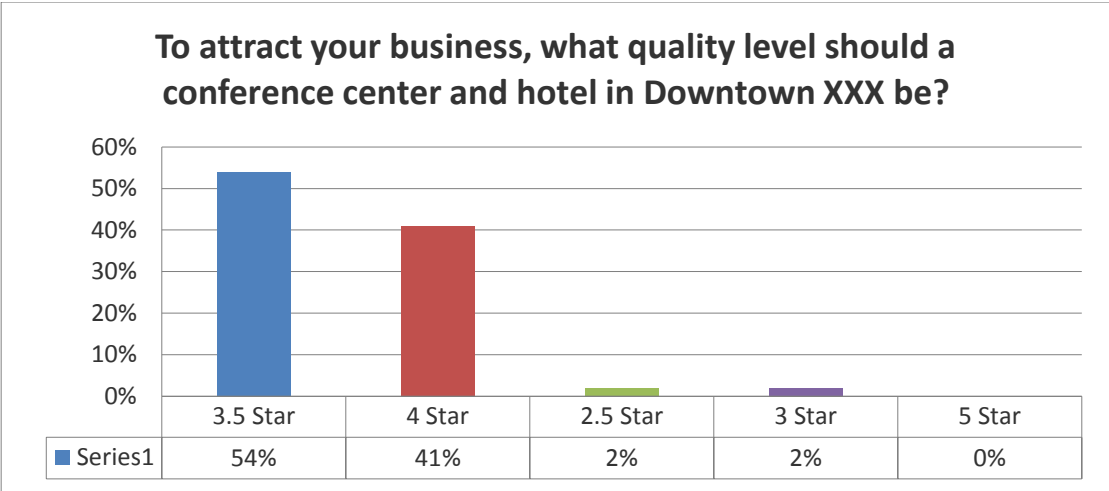
In the figure below, our research shows that the majority of the meetings in the Downtown XXX market are held at the Marriott XXX or Sheraton XXX. Please note that this question allowed people to select multiple properties. The results indicate the percentage of times a property was chosen. The Renaissance XXX was included because of its proximity to Downtown XXX. Both facilities have a large amount of meeting space with ballrooms that can accommodate large meetings. The subject property's 50,000 sq. ft. of meeting space would be approximately 10,000 sq. ft. less than the Marriott and 15,000 sq. ft. more than the Sheraton. The 20,000 sq. ft. ballroom at the subject property would be the largest hotel ballroom in the State of XXX and provide a strong competitive advantage over the Downtown XXX and XXX market.



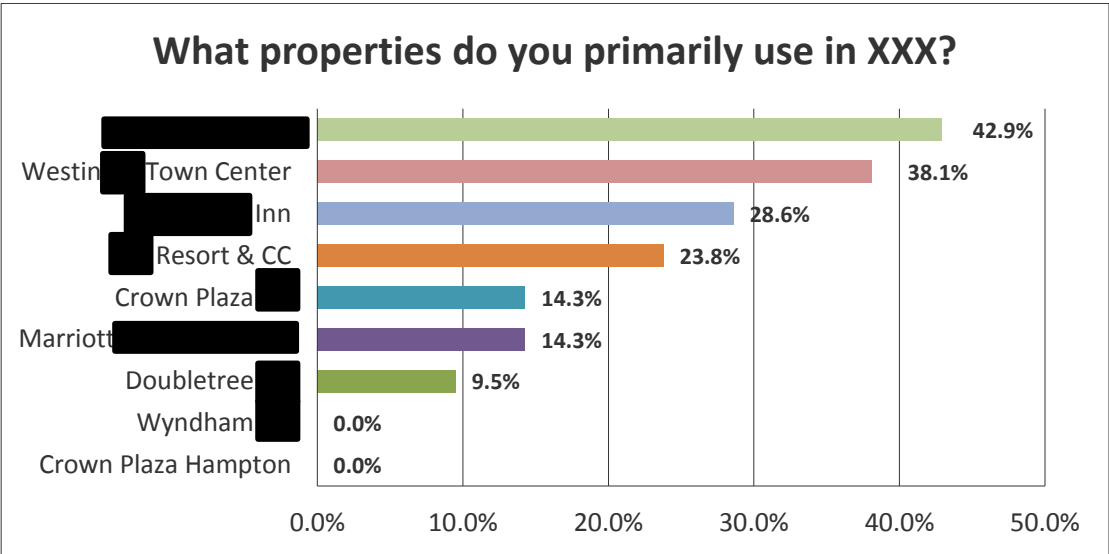
Customer surveys reveal that 95% of the customers prefer a facility to be either of 3.5 or four star quality. At this time there are no four star hotels in XXX. The competing downtown hotels have

undergone renovations but have not invested or developed plans at this time to bring their properties up to a four star level.

The subject property’s plan to present the property as a four star operation will draw the higher end business currently in the market. The marketing of a four star property will also attract new business to the market that has not previously considered it due to the lack of a facility with the desired quality meeting and service components.



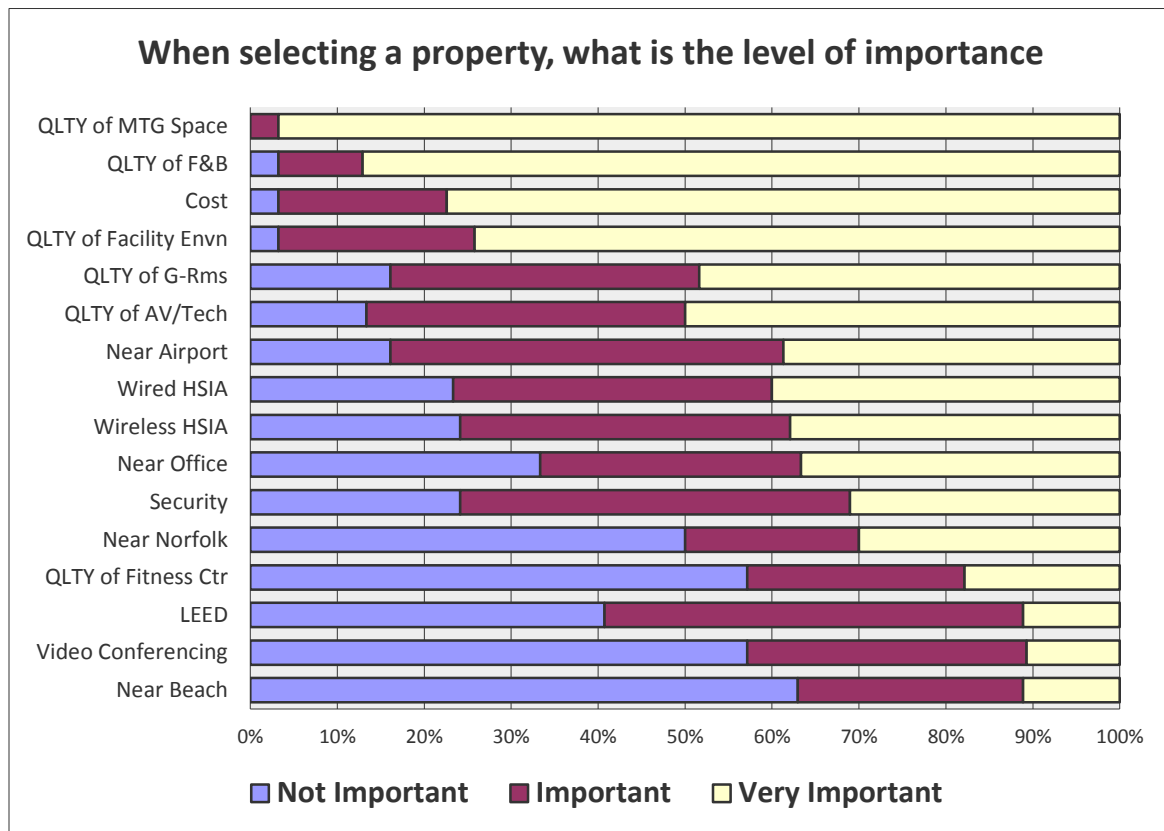
(Note: 2.5 stars is similar to a Best Western or Comfort Inn; a three star is similar to a Hilton Garden Inn or Courtyard by Marriott; a 3.5 star is similar to a Marriott or Westin; a four star is similar to a J.W. Marriott or Fairmont; a five star hotel is similar to a Four Seasons or Ritz-Carlton)



Our customer interviews revealed that the meeting package concept would be successful. Aside from reasonable pricing, the most important factors for the meeting planners in selecting a property were the quality of the meeting space, quality of food and beverage, quality of facility environment, quality of guest rooms and reliable audio visual. The high speed internet access and proximity to the airport



and office were other factors that the meeting planners mentioned as being important. Other than location, all of these factors are at the core of the meeting package concept.

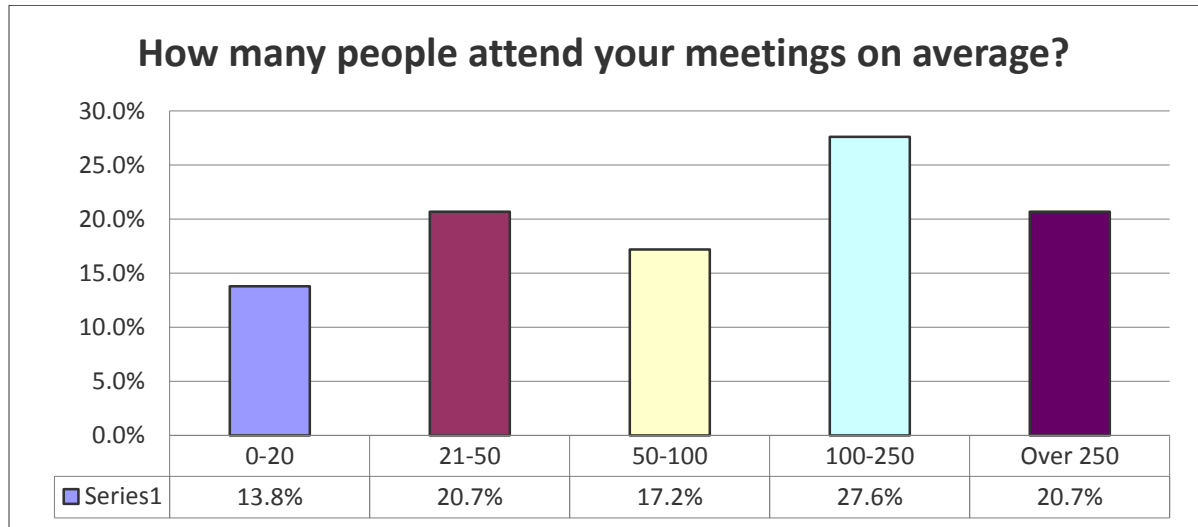


We believe that a conference center product, selling a properly priced meeting package, will be welcomed in the marketplace. A well-trained sales, planning and service team that fully understands and embraces the meeting package concept is critical to providing these essentials and serve the needs of the market.

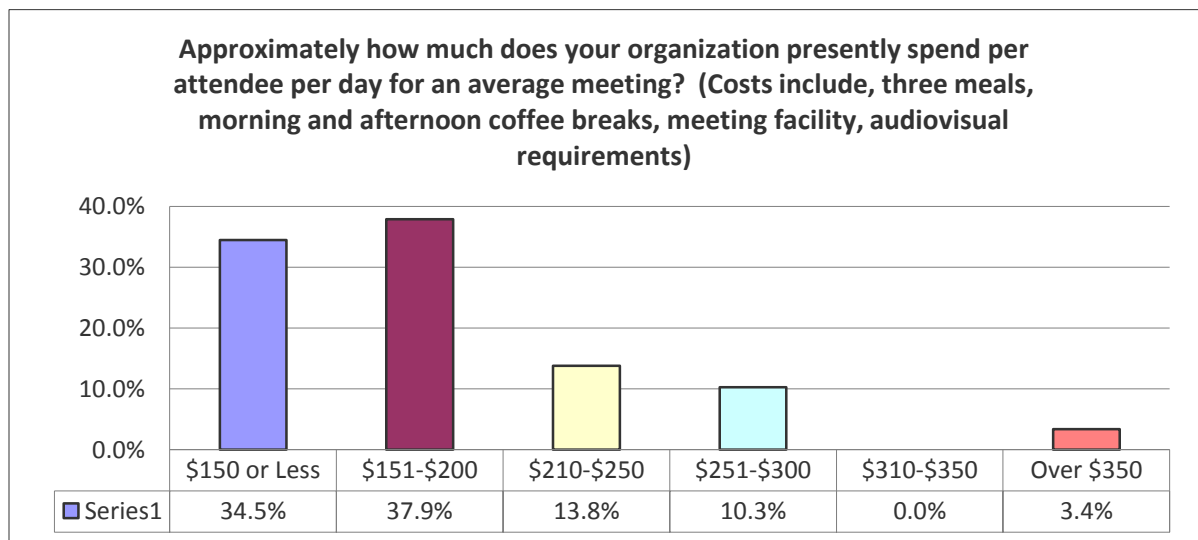
Based on our research and an understanding of other conference center hotels around the region, the current design of the fourth floor conference center provides a separate and distraction-free environment for productive and efficient meetings. The design provides the flexibility sought by customers, as well as the various sized rooms to host a multitude of meeting types. Based on the customer feedback of the floor plans, the areas designated as the Executive Leadership Center, Amphitheater Room and Think Tank/Innovation room, designed with the right technology support, can be marketed as signature rooms that will be unique in the market.

An analysis of the survey shows there is an even spread in the size of the meetings held by the market. The ability to have large rooms as well as rooms in a variety of sizes positions the subject property well with the meetings that are currently booked in the market. 27.6% of respondents report that

their meetings have 100-250 attendees. This positions the 9,946 sq. ft. junior ballroom perfectly as a primary general session space.



Shops of the competition combined with surveys, enabled us to evaluate the markets pricing structure. With this understanding, we believe a base Complete Meeting Package of \$249 per person, per day would be an attractive and profitable price point for the property in year one. This would provide the subject property with a guestroom rate of \$119. The remaining \$130 would be allocated to Food & Beverage (\$107), Technology (\$10), Room Rental (\$10) and Parking (\$3). Based on seasonality, the property can and should adjust the room rate to maximize total revenues.



We believe the Day Meeting Package would be competitively priced at \$109 per person, per day in year one. The allocation breakdown would be \$61 for Food & Beverage, \$10 for Technology and \$3 for Parking. The remaining \$35 is Room Rental (which is the flexible component the Day Meeting Package).

We acknowledge that the current parking rate in downtown XXX is \$14.00. The \$3.00 allocation is not meant to be a dollar for dollar transaction. By including a parking allocation, the property will generate revenue on every package sold; whether the guest uses the parking garage or not. The accumulated revenues will allow the property to pay for parking expenses incurred over time. \$3.00 is an estimate that can be fine-tuned when allocations are finalized.

We recommend that parking be included in all of the meeting packages to provide added value for the package and attractiveness for the property. The lack of free parking was mentioned numerous times as a detractor to XXX as a meeting destination.

With the subject property being constructed as an IACC conference center we forecast the property to sell 3,800 Overnight Meeting Packages (CMP and MMP) in year one and stabilize at 11,400 overnight meeting packages. This is based on a utilization factor for the first year of 30% and that will grow in year two to 50% and then stabilize at 60%. (A detailed description of these projections can be found in section 5.7).

Research shows that typical conference centers can expect to sell one (1) DMP for every CMP/MMP sold. In the case of the subject hotel we are projecting a larger number of DMP's then normal because of the large amount of meeting space above and beyond what is needed to support the guestroom inventory. We believe that the property will have success selling DMP's outside of the conference center by utilizing the third floor meeting space and, in particular, the amphitheater. We forecast that the subject property will sell 5,700 Day Meeting Packages the first year and stabilize at 17,100.

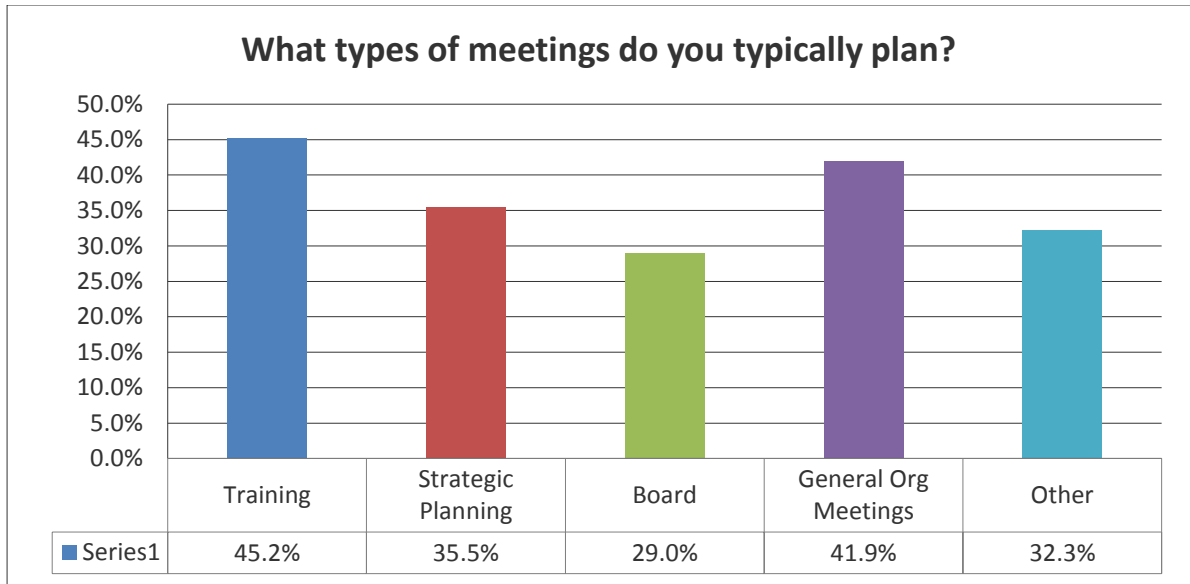
	2016	2017	2018	2019	2020
<b>Projected Package VOLUMES</b>					
<b>Forecasted Packages Sold</b>					
CMP's Sold	950	1583	1900	1900	1900
MMP's Sold	2850	6333	9500	9500	9500
DMP's Sold	5700	11875	17100	17100	17100
<b>Total Packages Sold</b>	<b>9500</b>	<b>19791</b>	<b>28499</b>	<b>28499</b>	<b>28499</b>

Based on the projected package volume and recommended rates, the Year one total property package revenues are projected to be \$1,481,965. Using a 3% annual increase for the package rates, the total package revenue generated by the subject property in Year five is projected to be \$4,971,818. (See table on following page).

	2016	2017	2018	2019	2020
<b>Projected Package Generated Revenues</b>					
<b>REVENUE</b>					
<i>Room Revenue</i>					
CMP	\$ 113,047	\$ 194,065	\$ 239,864	\$ 247,060	\$ 254,472
MMP	\$ 344,842	\$ 789,305	\$ 1,219,476	\$ 1,256,060	\$ 1,293,742
<b>TOTAL ROOM REVENUE</b>	<b>\$ 457,889</b>	<b>\$ 983,369</b>	<b>\$ 1,459,340</b>	<b>\$ 1,503,120</b>	<b>\$ 1,548,213</b>
<i>Food &amp; Beverage Revenue</i>					
CMP	\$ 101,648	\$ 174,495	\$ 215,676	\$ 222,146	\$ 228,811
MMP	\$ 213,745	\$ 489,238	\$ 755,873	\$ 778,550	\$ 801,906
DMP	\$ 347,692	\$ 746,089	\$ 1,106,599	\$ 1,139,797	\$ 1,173,991
<b>SUBTOTAL - F&amp;B REVENUE</b>	<b>\$ 663,084</b>	<b>\$ 1,409,822</b>	<b>\$ 2,078,148</b>	<b>\$ 2,140,492</b>	<b>\$ 2,204,707</b>
<i>CC Allocated Revenue</i>					
CMP	\$ 12,350	\$ 21,200	\$ 26,204	\$ 26,990	\$ 27,799
MMP	\$ 37,049	\$ 84,801	\$ 131,018	\$ 134,949	\$ 138,997
DMP	\$ 74,098	\$ 159,003	\$ 235,833	\$ 242,907	\$ 250,195
<b>SUBTOTAL - CC ALLOCATED REVENUE</b>	<b>\$ 123,497</b>	<b>\$ 265,004</b>	<b>\$ 393,054</b>	<b>\$ 404,846</b>	<b>\$ 416,991</b>
<i>CC Meeting Room Rental Revenue</i>					
CMP	\$ 9,500	\$ 16,308	\$ 20,157	\$ 20,761	\$ 21,384
MMP	\$ 28,499	\$ 65,232	\$ 100,783	\$ 103,807	\$ 106,921
DMP	\$ 199,495	\$ 428,084	\$ 634,934	\$ 653,982	\$ 673,601
<b>SUBTOTAL CC MEETING ROOM RENTAL</b>	<b>\$ 237,494</b>	<b>\$ 509,623</b>	<b>\$ 755,873</b>	<b>\$ 778,550</b>	<b>\$ 801,906</b>
<b>TOTAL Package REVENUE</b>	<b>\$ 1,481,965</b>	<b>\$ 3,167,819</b>	<b>\$ 4,686,415</b>	<b>\$ 4,827,008</b>	<b>\$ 4,971,818</b>

Based on our research with customers, the five markets that will be successful for the subject property are Association, Corporate, Military, Religious and Education. With the exception of Corporate, these markets prefer a central location that is easily accessible for their attendees and is in a reasonably priced market. XXX is situated very well to serve these markets. Based on the customer comments, the size and design of the subject property will be able to serve the meeting needs of these markets. The meeting planners shared with us the need for a large general session room, multiple breakout areas and exhibit space.

We recommend the sales team be deployed based on specific market segmentation. Further research shows that the Training, Strategic Planning and General Organizational meetings are the most common types of meetings. Each market will use a conference center for a particular type of meeting and the sales manager(s) will need to be an expert(s) in understanding the market types, patterns, and protocols.



We sought data from the XXX CVB on business lost and the reasons why. While we were not able to receive a list of specific groups, we were given aggregate data for the period January 2011 through August 2013. The city lost 48 groups because there was not adequate contiguous space in downtown. The lost business, which would have actualized between 2011 and 2020, represents 36,385 room nights. While the addition of the new hotel would not guarantee conversion of all of this business, it is fair to assume that some of the business would have been captured and further, that with the subject hotel more RFP's for future city wide business will be received.

Finally, we looked at other conference centers in various markets throughout the United States to find similarities, precedents and lessons that would help support the idea of building and bringing to market an IACC quality conference center within the subject property. We confirmed a common theme; that new conference centers (full active or ancillary) in markets unfamiliar with the conference center concept, experienced an 18-24 month period of slow growth in package volume. After this period of market awareness and education and because these properties stayed committed to selling the conference center concept, these centers became successful, profitable, and in some cases rose to a position of market leader. Some examples include:

#### **THE XXX HOTEL & CONFERENCE CENTER**

The XXX Hotel & Conference Center opened in 1991 and was the first IACC certified conference center hotel in the XXX metropolitan market. The property has 302 guestrooms with 60,000 net square feet of meeting and banquet space. Built to model the true conference center concept, the conference center wing has 25,000 square feet of dedicated conference space, clearly separated from the living and leisure portions of the rest of the property. Upon opening the property was managed under a strict interpretation of the conference center concept, selling only Complete Meeting Packages (CMP) and Day Meeting Packages (DMP). The owner, US West, was the primary customer in 1991-1992, but as their volumes began to decrease, the property implemented Modified Meeting Packages (MMP)

to accommodate a broader range of meeting planner's requests. The business mix changed over the first few years with the US West day meeting packages decreasing and overnight meeting packages increasing. By 1993, the property sold 25,000 overnight meeting packages and 20,000 DMPs.

Today the property sells 50,000 group room nights' 85% of which are overnight meeting package, and an additional 10,000 DMPs. Based in part on the success of XXX, two other hotels, the Renaissance XXX Hotel and the Sheraton XXX Hotel, were repositioned to capture package business; both joined IACC after significant renovations.

### **THE DOUBLETREE XXX**

This hotel was acquired by XXX late 2007 and underwent significant improvements in 2008-2009. XXX bought the property with the intent of repositioning it into a full active IACC conference center which was accomplished with the construction of new, stand alone, 13,000 gross square foot (7,500 net sq. ft.) dedicated conference center as an addition to the existing complex.

The conference center was built to accommodate package business only; centralized breaks and services could not be removed to accommodate traditional hotel business. Groups that were not interested in a CMP, MMP or DMP were forced to use meeting space in the main hotel building. The XXX market was new to the conference center concept and required a great deal of customer education.

The center struggled in 2009 and 2010, barely servicing 6000 packages in its first full year (2010). In 2011 the property began to gain momentum and sold approximately 11,000 packages and today is running at a stabilized 13,500 packages a year which represents 70% utilization of the dedicated space.

### **XXX CONFERENCE CENTER**

The facility was built by XXX Corporation in 1974 under the name of XXX to train employees in XXX technology and equipment. From 2000 to 2002, the facility closed and completed a \$29 million renovation in order to enhance its training operations so that it could be more conducive to the public market and the property was renamed the XXX Conference Center.

In 2008, XXX determined to focus on the government and military market due to their needs for minimal amenity needs and low pricing structure. The XXX worked closely with General Services Administration (GSA) and became an approved vendor for government meetings to ease the process of booking meetings at the facility. Due to the size of the facility, the property was able to offer a pre-approved government meeting package using per diem guest room and food and beverage allocations to ease the booking and approval processes.

For contractors or other industries related to the government market, an additional meeting component was added to the GSA package to cover the meeting and audio visual services. The

package is adjusted each year based on the annual market per diem. The 2013 XXX GSA approved CMP is \$169 with the DMP set at \$61.

Today the property is selling approximately 90,000 meeting packages.

### **XXX INN AND SPA**

The XXX Inn and Spa was built in 1991 as a full service, IACC certified conference center to host corporate, association and university conferences. The property has 238 guestrooms with 24,000 square feet of dedicated conference space. In August, 2000 XXX University acquired ownership of the property and hired XXX Hospitality to manage the property; a specialist in operating conference centers.

In 2006 and 2007 the property peaked by selling an average of 8,200 overnight packages per year. The primary markets served were association and SMERF; which included university and religious conferences, and had limited success selling to the corporate market. In the years following, the property shifted its focus from group sales to the transient market. In 2006/2007 the property business mix was 59.2% group and 40.8% transient. By 2010, the mix changed to 37.3% group business to 62.7% transient.

Today the property sells meeting packages upon request only. Continued IACC membership is unlikely because the property will not pass their next IACC inspection.

Other properties that are comparable include the Sheraton Framingham, the Doubletree Bethesda, the Former Wyndham (now Sheraton) Miami Airport, the Rockville Hilton and the Doubletree Somerset. All of these properties began as hotels and were converted to either full or ancillary conference centers. All had slow starts but were able to achieve high package volume while ownership was stable and focused on the conference center concept. The one property that we have not listed is XXX. XXX has been an IACC member for over 15 years. They do quote CMP/DMP upon request and their DOSM, XXX is a long time conference center professional. We do not have definite volumes to report at this time.

These examples reveal two important factors in evaluating the viability of the subject hotels' potential for selling packages:

1. There is package demand in the market. The retreat of the XXX, away from the conference center concept, has created unsatisfied demand. Some of this demand may be met at XXX but the balance has reverted to a traditional hotel meeting experience. A new IACC conference center in XXX should be able to recapture this lost package business which represents 8,400 of the 11,400 CMP/MMP room nights that we are projecting as the property's stabilized volume.
2. Fortitude during a period of market education is critical. Properties that have maintained a belief in the vision of offering the conference center concept find success as early as year two but typically in year three.

## 1.5 Recommendations

Based on the findings of our research and interviews with the meeting customers, the following recommendations are made to further support the success of the subject property:

1. Fully embrace the conference center concept and environment without compromise. Encourage the sales team to sell a meeting package first before slipping in to past behaviors of selling the meeting space like a traditional hotel. When a property permits the selling of a la carte meetings (i.e.: room rental, AV and F&B separately) into the dedicated [conference center] meeting space, the conference center concept including the service and profitability can become compromised. Once this booking trend is permitted, it is difficult to reverse. The best time to express who you are is when a property first opens and the team is able to comfortably and confidently sell the meeting package and convince the customer it is in their best interest.
2. Develop Conference Center Champions for the property. These individuals will be fully trained and equipped to motivate fellow team members as well as the customer regarding the concept. They will be able to fully articulate the features and the benefits of the conference center concept. Successful conference centers create champions in the Conference Services, Sales and Food & Beverage departments. We recommend that a Conference Services Department be created, with a Director of Conference Services reporting directly to the General Manager. This is a common practice in conference centers but it is not often found in hotels. The purpose of this structure is multi-fold. First, by elevating this position to the executive committee it recognizes the responsibility and contribution of the individual towards the property's overall success. The Director of Conference Services is charged with maintaining the integrity of the concept and delivering the promise of an exceptional meeting experience. Second, customers find comfort in working with someone in authority. We believe this structure will help establish the commitment to the conference center concept and help enforce the image both internally and externally.
3. Closely review the suggested modifications to the floor plan (detailed in section 3.4); particularly the recommendations to include a conference concierge on the fourth floor, to add bathrooms or bathroom access in the dedicated conference center area, to re-engineer the current self-serve business center plan, to enlarge the boardroom and to rethink access to the freight elevators which will help facilitate the load-ins of larger, exhibit oriented events.
4. Foster the relationship with the Customer Advisory Council. We have never experienced the level of excitement about any project before. The 40% positive response to participate in the council meetings was a clear message that the market is excited about the property and will support it. A continued communication plan with this group of people in the meetings market will create a group of people invested in the success of the property.

The Customer Advisory Council provided valuable insight into what they look for when selecting a facility. Many of them commented that they never heard of a hotel asking for their input prior



to building and thought it was a unique and great idea. While the subject property may not be able to implement all of the suggestions, making a few of the changes will send a message that the subject property will be different.

5. Create a fully developed on-boarding process to train all employees about the conference center concept. Most likely a large portion of the new team members for the subject property will not have worked in a conference center environment. A portion of the New Hire Orientation should explain the differences between a traditional hotel and a certified conference center. The sales and planning team will need in-depth training to sell the benefits of the meeting package.
6. Do not limit training to hotel and XXX employees only. The city of XXX will be adding a new type of meeting facility to its inventory. Do not assume the city (CVB, Chamber of Commerce, etc.) knows the differences between hotels, conference centers and convention centers. It will be critical to the long term success of the project and a long term benefit to the City if all “players” are fully versed in the differences and the benefits.