

Strategic Case: Background

The McCormick Hotel



TABLE OF CONTENTS

Property Information.....	1
Downtown Baltimore and Inner Harbor.....	6
Local Hotel Market.....	8
Location.....	10
Brand Promise.....	11
Target Market Segments	12
SWOT Analysis.....	13

Property Information

The Property

The McCormick Hotel will be a premier luxury lodging and meeting venue located in the Inner Harbor district of Baltimore, Maryland, USA. The property will be developed by renovating the landmark McCormick Spice headquarters building located at 225 Pratt Street. It is scheduled to open in 12 months.

The McCormick will have 291 keys that include the following:

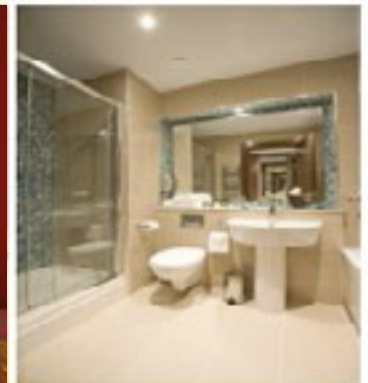
Room Type	Keys
Queen Single	55
King Single	161
Queen Double	41
Studio Suite	12
One Bedroom Suite	12
Two Bedroom Suite	9
Presidential Suite	1

The standard rooms will vary in size, from 285 square feet for a queen to 375 square feet for a king. All will feature glass stall showers; some will also have bathtubs.

“Spice” Bar

Typical King Room

Typical Guest Bath



Note: Photographs are design renditions of proposed décor.

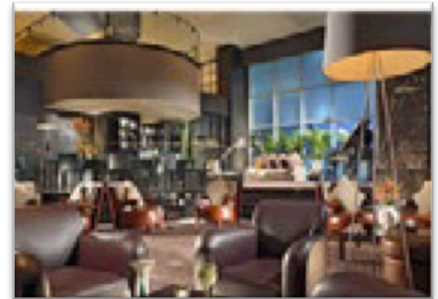
Property Information

Specific Information

The nine-story McCormick Hotel will be centrally located in the waterfront area, a mixed-use development in the heart of downtown Baltimore. The waterfront property is situated at the harbor and in close proximity to entertainment, sporting venues and business districts, abundant dining, historic landmarks, and cultural sites. The hotel's 291 guest rooms, including 34 suites, will be located on floors 2 through 9 and will feature exceptional views of the harbor and Baltimore skyline. Each guest room will offer a variety of practical and convenient amenities, as well as state-of-the-art technology to suit the needs of both the business traveler and leisure guest. Each room will also feature framed photographs of historic Baltimore and design touches that evoke the city's rich past as a seaport and manufacturing center.

The McCormick will offer "the best of both worlds," as it will possess a boutique-like feel with full service facilities in a prime downtown location. It will boast modern amenities, including a fitness center, outdoor pool, a spa— and immediate access to a vibrant and interesting set of neighborhoods to explore. Its 291 guest rooms and public areas will be luxuriously furnished and finished, mixing a sense of the past with contemporary comforts. Each guest floor starting with the third floor will offer a two-bay meeting room that can be converted into seven additional guest suites.

The McCormick Hotel will incorporate historic and modern themes and will prepare food from fresh local ingredients. In addition to 24-hour in-room dining, the hotel will offer three food and beverage choices, including **Spice**, which will offer New American cuisine with a regional flavor. **Spice** will serve three meals a day and provide alfresco dining overlooking the harbor. The lobby lounge, **Lavern's**, will offer cocktails and light fare. **Spice** and **Lavern's** lounge will be two of Baltimore's most elegant nightspots. The pool lounge on the roof will serve casual fare and drinks until sunset.



The McCormick will include more than 15,000 square feet of meeting and banquet space. There will be two ballrooms at the Hotel—the **Baltimore Ballroom**, with more than 7,000 square feet, will seat 550 people, and the **Calvert Ballroom**, with 2,200 square feet, will seat 200 people. There will also be 11 smaller meeting rooms and boardrooms located throughout the hotel. Additionally, the rooftop pool lounge will be able to host outdoor receptions and functions. The hotel will also offer conference services and audiovisual equipment.

Property Information



The McCormick will have a state-of-the-art fitness center supervised by a full-time staff and personal trainers, and featuring the latest exercise equipment. Each cardiovascular machine will have individual flat-screen TVs and DVD players. Adjacent to the fitness center will be men's and women's locker rooms, each with a sauna and whirlpool. The hotel spa will offer a variety of treatments for guests to enjoy in private treatment rooms or in the privacy of their guest rooms. The hotel will also feature an outdoor heated pool and lounge area overlooking the harbor.

The McCormick will have countless on-site amenities, including 24-hour business services with computers, printers, Internet access, and photocopying capabilities to meet the needs of the most discriminating business traveler; free Wi-Fi in the public areas and guest rooms; valet parking in an on-site garage; twice-daily housekeeping service; and 24-hour laundry and dry-cleaning service, just to name a few.

Projected Financial Results



The projected financial results outlined in the accompanying table reflect forecasted results for the next five years.

Historical and Projected Financial Results					
	Year 1 Forecasted	Year 2 Forecasted	Year 3 Forecasted	Year 4 Forecasted	Year 5 Forecasted
ADR	\$228.31	\$235.09	\$245.14	\$258.50	\$264.73
Occupancy	68.0%	70.0%	72.5%	74.0%	76.5%
RevPAR	\$155.24	\$164.57	\$177.93	\$191.29	\$202.52
Rooms Revenue	\$16,489,878	\$17,479,803	\$18,877,592	\$20,293,438	\$21,510,662
Total Revenue	\$28,857,287	\$30,589,656	\$33,035,786	\$35,513,517	\$37,643,659
Gross Operating Profit	\$9,234,332	\$9,788,690	\$10,901,810	\$11,719,460	\$12,798,844
NOI	\$7,876,923	\$8,349,792	\$9,266,529	\$9,961,541	\$10,879,174

Property Information

Projected Income Statement

McCormick Suites and Venue

	Next Year's Dollars per Available Room	Percent of Revenue
Revenue		
Rooms	\$16,489,000	57.1%
Food & Beverage	\$10,273,000	35.6%
Other Departments	\$1,789,000	6.2%
Other Income	\$306,000	1.1%
Total Revenue	\$28,857,000	100.0%
Departmental Expense		
Rooms	\$3,545,000	21.5%
Food & Beverage	\$6,780,000	65.9%
Other Departments	\$1,362,000	65.0%
Total Departmental Expenses	\$11,687,000	40.5%
Total Departmental Income	\$17,170,000	59.5%
Undistributed Operating Expenses		
Administrative and General	\$2,828,000	9.8%
Sales & Marketing	\$2,309,000	8.0%
Property Operations & Maintenance	\$1,385,000	4.8%
Utilities	\$1,414,000	4.9%
Total Undistributed Expenses	\$7,936,000	27.5%
Gross Operating Profit	\$9,234,000	32.0%
Fixed Charges		
Property & Other Taxes	\$1,010,000	3.5%
Insurance	\$346,000	1.2%
Total Fixed Charges	\$1,356,000	4.7%
Net Operating Income	\$7,878,000	27.3%

Downtown Inner Harbor and Baltimore*

Baltimore is a strategically located East Coast port city with a diverse economic base. The city's revived downtown and central location among major East Coast cities has made it increasingly attractive to new or expanding businesses and a desirable tourist destination and event venue.

Baltimore's blue-collar roots have given way in the 21st century to jobs in service-sector fields, such as law, finance, hospitality, entertainment, healthcare, and maritime commerce. However, the city still is an exporter of coal, grain, iron, steel, and copper products. Baltimore also remains a center for shipbuilding.



Baltimore is an established center of medicine and biosciences. It is a national headquarters for advanced medical treatment and research with two pioneering teaching hospitals, Johns Hopkins Hospital and University Hospital at the University of Maryland. The Baltimore area is the research center for the mapping of the human genome and its resulting commercial applications.

Tourism, spurred on by the opening and expansion of downtown attractions, in particular the Inner Harbor, has boosted construction. The success of the Inner Harbor renovation, with consequent hotel, restaurant, and entertainment development, has lured residents back downtown. Tourism to Baltimore has produced revenue growth for more than a decade, with increased hotel occupancy rates, convention-related spending, greater air travel to the city, increased tax revenues, and growth in leisure and hospitality jobs. While Baltimore suffered from racial tensions and demonstrations in 2016, tourism has rebounded, particularly around the Inner Harbor.

* Source:

<http://www.city-data.com/us-cities/The-South/Baltimore-Economy.html>



Downtown Inner Harbor and Baltimore*



The Baltimore metropolitan area is home to three companies on the Fortune 500 list of the largest companies in the United States: food distributor U.S. Foodservice Inc., power tool giant Black & Decker Corp., and Constellation Energy, the utility holding company that owns Baltimore Gas & Electric Co.

The McCormick building is located in Baltimore's Inner Harbor, which is one of the most photographed and visited areas of the city. The Inner Harbor is the crown jewel of downtown Baltimore's vibrant and beautiful waterfront. The area is home to dozens of shops, eateries, attractions, and exciting nightlife, all within walking distance of the McCormick.

The area hosts the Baltimore Convention Center, the National Aquarium, and the Maryland Science Center, with its 360-degree IMAX experience, the Reginald F. Lewis Museum of Maryland African American History & Culture, and for those looking for the pop culture icons of the past, Geppi's Entertainment Museum. Other attractions include the one-of-a-kind American Visionary Art Museum, Sports Legends at Camden Yards, and the Port Discovery Children's Museum. The harbor and surrounding areas are linked by the famous Baltimore Water Taxi, which combines great views, convenience, and nostalgia in one boat ride.

Baltimore is also the home of world-class professional sports teams and the site of top-notch college tournaments and games. Baltimore features newer stadiums and is the home of the Preakness Stakes thoroughbred horse race. Baltimore supports a variety of professional, college, and amateur sports teams. Professional teams include Baltimore Ravens football, Baltimore Orioles baseball, and Baltimore Blast soccer. Baltimore-area college sports teams are highly competitive and include famous names such as Maryland Terps, Towson Tigers, Goucher Gophers, Mount St. Mary's Mountaineers, and the Naval Academy Midshipmen.

The area offers breathtaking panoramic views of the skyline from the Observation Level of the World Trade Center to the up-close-and-personal experiences of street performances happening spontaneously at the waterfront. The area and the McCormick Hotel offer guests the opportunity to enjoy a great tourist destination, a unique, localized lodging option for a business trip, and an ideal location for both large and small events.

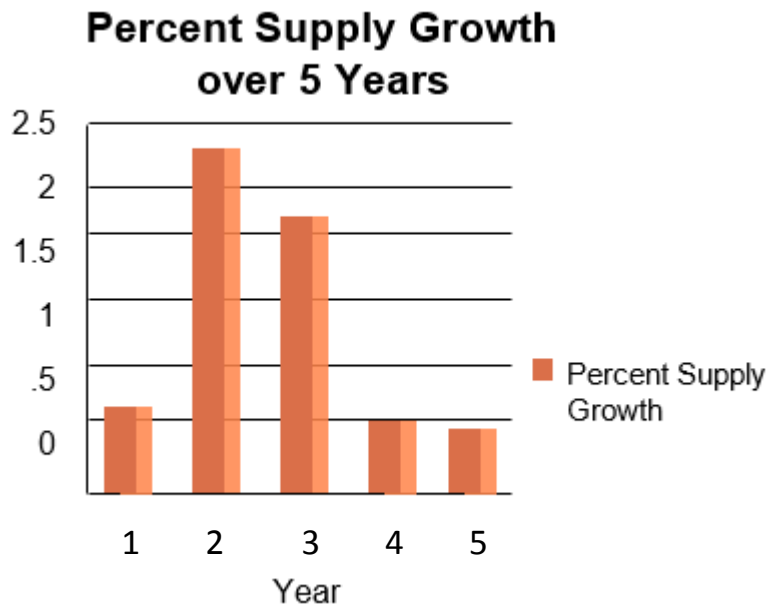
* Source:

<http://www.city-data.com/us-cities/The-South/Baltimore-Economy.html>

Local Hotel Market

The downtown Baltimore upscale and luxury hotel market is comprised of approximately 7,000 hotel rooms. This represents about 20% of the Baltimore market lodging supply. The supply of those rooms is expected to grow modestly for the next five years; see Figure 1.

Figure 1
Forecast Hotel Supply: Baltimore Area



Projected occupancy, ADR, and RevPar growth are shown as percentages in Table 1 below.

Table 1
Baltimore Area: Growth Rates for Occupancy, ADR, and RevPar

Year	1	2	3	4	5
Occupancy	3.1	1.7	1.2	1.7	0.8
ADR	3.0	5.4	6.2	7.3	6.1
RevPar	6.1	7.3	7.5	5.2	6.9
Demand	3.7	4.1	2.8	2.2	1.2

Regional Economic Summary

Economic activity has been sending mixed signals for Baltimore business and tourism for the near future. The banking sector has improved moderately, led by gains in commercial and industrial lending. Reports on area labor markets are generally positive. Residential and commercial real estate agents describe activity as mixed. Manufacturing lost momentum, with several contacts noting that demand had leveled off for the near future. In addition, revenue growth among nonretail service firms has weakened and retailers say that sales over the last year have dropped. Manufacturing firms reported that input prices grew slightly, but pass-through to buyers was limited and price growth at services firms remained moderate.

Tourism in the area continues to show signs of improvement after a brief period of racial tensions in 2016. Airport contacts in Maryland and Virginia report strong business travel. In addition, recreational industries, restaurants, and hotels have noted stronger revenue growth. A contact on the North Carolina coastline reported that tourist activity has increased compared to year-ago levels, and house rentals were up as much as 20 percent or higher in the last quarter. A contact in Washington, D.C., noted that the number of incoming tour buses was high and the nation's capital expected more than 500,000 tourists on Memorial Day weekend.

Location



Popular Baltimore Area Hotels

A. InterContinental Harbor Court Baltimore
550 Light Street, Baltimore, MD
(410) 234-0550 | intercontinental.com

B. Harborplace
202 East Pratt Street, Baltimore, MD
(410) 547-1200 | marriott.com

C. Renaissance Baltimore Harborplace Hotel
202 East Pratt Street, Baltimore, MD
(410) 547-1200 | marriott.com

D. Harbor Club
711 Eastern Avenue, Baltimore, MD
(410) 539-2000 | harbormagic.com

E. Baltimore Marriott Waterfront
700 Aliceanna Street, Baltimore, MD
(410) 385-3000 | marriott.com

F. Homewood Suites
625 S President St, Baltimore, MD
(410) 234-0999 | homewoodsuites3.hilton.com

G. McCormick Hotel
225 Pratt Street, Baltimore, MD
(410) 547-1200 | mccormickhotel.com

H. Courtyard Baltimore
1000 Aliceanna Street, Baltimore, MD
(443) 923-4000 | marriott.com

I. Crestline Hotels & Resorts
1000 Aliceanna Street, Baltimore, MD
(443) 923-4000 | crestlinehotels.com

Proposed Brand Promise

The McCormick Hotel



The owner of the McCormick has proposed the following brand promise for the hotel:

An independently managed hotel that provides guests with extraordinary personalized service in an atmosphere of historic grandeur with modern facilities.

Proposed Target Market Segments

Segments	Definition
SME Business Traveler (Small and Medium Enterprise)	Small business firm professionals <ul style="list-style-type: none">• Seek to network with other professionals, have fun, and enjoy city life• Looking for luxury
Small & Medium MICE (Meetings, Incentive, Conventions, and Events)	Smaller and local business groups <ul style="list-style-type: none">• Seek to hold their meetings and events in an effective and intimate environment with attentive service and quality food• Seek to hold private events• Educational and medical groups to be given equal attention
Leisure	Local FIT leisure travelers <ul style="list-style-type: none">• Appreciate the mix of Baltimore attractions and activities Group travelers <ul style="list-style-type: none">• Price-sensitive segment looking for value added services
Other	Transient, group, and association travelers <ul style="list-style-type: none">• <i>The</i> place for hosting events• Partnering with Baltimore-based professionals to put on events

Proposed Target Market Segments

A tourism-consultant's report indicates that the Baltimore travel market has begun to mature, meaning the traditional market designations (leisure/business, group, group/FIT) no longer offer adequate information about more fragmented market segments, especially as the lodging product in Baltimore becomes more diverse. Using a more fine-grained analytic approach that layered psychographic (lifestyle) analysis on top of the demographic segments revealed numerous micro segments of travel consumers who were coming to Baltimore for a variety of different experiences. These include:

Sports Enthusiasts: Travelers from the nearby drive market (e.g., 4 hours or less) who come to Baltimore for professional sports. A large number of these visitors came from Washington, Philadelphia, Harrisburg, etc.

Families: Families with children from the nearby drive market (e.g., 6 hours or less) who come for inexpensive short stays, often as add-on time for vacations in nearby Ocean City, Maryland (less than 3 hours' drive from Baltimore), and other nearby beaches.

Empty Nesters: Travelers without children who seek a vibrant urban experience, but at a lower price point than New York City, Philadelphia, or Washington, DC.

Young Couples and Singles: Adults without children who come to Baltimore for a hip, urban experience without the pretension of other nearby big cities. This segment can be further divided into the foodies who enjoy adventurous culinary and entertainment experiences, the clubbers who seek nightlife, and the local bohemians who live in or near the city and enjoy the culture, food, and relatively low-cost housing.

Local Business Elite: Travelers associated with Baltimore businesses, large and small, that want to hold meetings, social gatherings, and other events that jointly showcase their uniqueness with the city's. They want their clients and potential business partners to be impressed and associate with them through the high-tech nature of the McCormick facilities and solid tradition of Baltimore, their headquarters' city.

Discerning Business Traveler: Tired of the sameness from the major hotel chains, these travelers want the same or better services and technology offered by the chains but in a refined and unique setting. When coming to Baltimore, they want to feel like they are coming home and not staying in the same hotel room they could experience anyplace in the world if they had stayed at a big-box chain property.

Sporting Elite: Professional sports team owners, university presidents, famous alumni, and others like them who want a bastion of refinement and elegance that befits their position and organization. They want to be seen (or not seen) enjoying the elegance and the best traditions the city of Baltimore offers.

Fortunate Spillovers: Baltimore is a major convention center. There are likely to be times when the major brand hotels are fully occupied (or have rates at peak levels). At such times, travelers and event planners will find the McCormick to be a logical option. And once they try the McCormick, they will be back again and again for business and leisure travel.

SWOT Analysis

Strengths

- **New facilities but in an historic building**—This gives the McCormick an advantage during the opening and through the first five to seven years of operation.
- **Flexibility**—Two-bay meeting rooms can be converted into guest suites with views. This allows better service for leisure and business segments according to their different demand peaks.
- **Rooftop pool lounge**—This feature is unique to the area and provides a competitive advantage when groups are looking for special event venues.
- **Harbor view**—This gives the McCormick competitive strength because the supply of waterfront hotels is limited.

Weaknesses

- **Lack of brand affiliation**—Each hotel in the competitive set has brand affiliation, giving it access to a loyal customer base, reward programs, and a CRS.
- **Distance from the convention center**—Although the McCormick is roughly 1.1 miles from the convention center, it is not within walking distance, as many business travelers would prefer.
- **Limited meeting space**—The McCormick offers 15,000 SF in meeting space, whereas other competitors can hold up to 80,000 SF, making it more attractive to larger corporate accounts.
- **Lack of loyalty program**—The McCormick lacks this incentive for guests to return; competitors have established loyalty programs.

Opportunities

- **Overflow business**—The McCormick can expect overflow business from Washington, D.C., during its busiest times.
- **Constant demand growth**—Although growth is small, new demand is the optimal market share for the McCormick to capture because new guests have not developed a preference.
- **Growing tourism industry**—Although growth is slow, tourist activity is an important leisure market share for the McCormick to capture; today's tourists crave authenticity.

Threats

- **Uncertain economy**—Business and tourism can negatively impact destination demand and local companies that may select the McCormick.
- **Direct competition**—A developer could decide to open a similar property.
- **Supply growth**—Upper-scale growth is predicted to be at 0.8% over the next five years. Although it is low, supply growth always poses a threat to current business.