

## **Graves brand moves to a bigger arena**

By Mark Anderson, F&C Finance Writer

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Jim and Ben Graves are taking their Minneapolis-born brand of luxury hotel management to a larger national stage in a joint venture with a German hotel marketing and reservation business.

The family-run business, whose initial luxury offering was the Graves 601 hotel in downtown Minneapolis, announced in November its collaboration with Worldhotels, a consortium of independently owned, upscale properties around the world.

The new Graves World Hospitality enterprise builds on the marketing, sales and reservation programs Worldhotels gives its 550 members worldwide (90 in North and South America), and adds to the package the luxury-focused, third-party management services that the Graves team provides.

The new company's target market has become hospitality's hottest segment over the last five years, and it's adding scores of opportunities for the new venture each year.

"The independent hotel business is growing by leaps and bounds," said Ben Graves, president of the new organization and of Graves Hotels Resorts, the Graves' proprietary luxury brand.

And there's a solid business reason for that market boom. "Independents are achieving higher room rates than their branded counterparts, and they're matching occupancy levels," Graves pointed out.

That kind of performance has delivered investors and lenders to the doors of those new hoteliers.

Graves World Hospitality will aim to provide that class of independent hotels with the full benefits of a brand — marketing, reservation networks and better access to the world's large travel generators — and for the first time will add a management program for that sector that delivers efficiencies of scale and niche expertise.

"It's a little bit hard to believe, but nobody has stepped up to provide that kind of one-stop service for hotels in this group," Graves said.

The new company also believes it can deliver those services with greater value to its members and at a much lower price than in traditional franchise packages.

In most franchise agreements, part of the fee charged to hotel owners pays marketing expenses for the brand, adding little new value to the individual property.

That brand investment makes sense in mass-market segments where hotels are much like commodities, relying on recognizable brands and quality to deliver both travelers and investors.

But in the independent, upscale boutique market, the value of the property comes from the development of a distinctive single product.

People in that niche are looking for something unique, rather than a commodity, Graves said.

“If you can spend that money on developing the value of your independent asset, you end up with a better product, and at the end of the day with a much larger buyer pool than a branded hotel. Any of the flags can buy and convert an independent,” he said.

Graves World Hospitality says traditional franchise fees — typically 14 percent of gross revenues — can be cut nearly in half by eliminating brand marketing and the premium that franchise members have grown accustomed to paying for their affiliation.

The owners of the new venture say they plan to expand slowly and carefully, but Graves said the strong early response has already made them revise their expectations upward.

“We expected to add two hotels during each of our first two years and probably five each year after that. But we’ve gotten a phenomenal response” from hotels in the pipeline that were looking for a boutique-focused management group, he said.

As a result, Graves now predicts adding five properties to the management portfolio in both 2007 and 2008 and 10 each year after that.

The new affiliation with Worldhotels also adds some heft and resources to the Graves name. The new combined venture will employ 125 associates in regional offices around the country, expanding the Graves brand in those markets.

“Now we have a very nice board room to use when we’re working in New York,” Graves said.

The new company will add management and staff to its payroll as new projects open, but it will also expand the Graves corporate presence in Minneapolis, doubling its local corporate staff from 15 to probably 30 personnel in the next year.

The Graves parent company, Graves Hospitality, now owns or manages nine hotels and has five more under construction or in development. The company employs 1,200 at all of its sites.