Cornell Real Estate Review

Volume 11 Article 7

7-2013

# Convene: Pioneers in a Corporate Real Estate Revolution: Convene Takes Manhattan

Pierre Rigaud
*Hotel & Leisure Advisors*

Matthew Legge
*Cornell University*

Susan Fleming
*Cornell University*, sfc24@cornell.edu



Recommended Citation
Rigaud, P., Legge, M., & Fleming, S. (2013). Convene: Pioneers in a corporate real estate revolution: Convene takes Manhattan. *Cornell Real Estate Review*, *11*, 45-62.

# Convene: Pioneers in a Corporate Real Estate Revolution: Convene Takes Manhattan

**Abstract**
This case focuses on two young entrepreneurs who have created a company with an innovative business model that caters to an underserved segment of the local meetings industry. They have managed to establish a successful foothold in New York City, with three thriving facilities and rapidly growing brand recognition. However, the company's co-founders have begun to think about expansion and whether their business model can be adapted for markets outside of Manhattan. The case gives a detailed overview of Convene's business model and the nature of its facilities. It then presents an investment opportunity in Boston, and asks students to consider whether the proposed project is suitable as Convene's first foray into a new market. Students are able to consider the opportunity from a market perspective as well as from an operational and financial perspective by analyzing the project based on the variables provided in the case. The case is intended to provide students with an understanding of deal dynamics from the perspective of both parties to the proposed transaction so that they can appreciate the interests that often influence deal structuring and how the different parties can appeal to those interests, while satisfying their own.

**Keywords**
Cornell University, real estate, entrepreneurship, corporate, deal structuring, market analysis, business strategy, expansion, meeting space, meeting industry, market trends, conference services, marketplace, demand, scaleable, site selection, lease, expansion, space

CORNELL
REAL ESTATE
CASE STUDY SERIES

# Convene:

## Pioneers in a Corporate Real Estate Revolution: Convene Takes Manhattan

By: Pierre Rigaud, Matthew Legge, and Dr. Susan Fleming

### Case Reprints

The Cornell Baker Program in Real Estate can provide reprints of Cornell Real Estate Case Studies upon request.

### Related Resources

A solution to this case is available upon request by faculty. Please fax or mail your request on appropriate letterhead to the number or address below:


Baker Program in Real Estate
Cornell University
114 West Sibley Hall
Ithaca, NY  14853-6701
(607) 255-7110 (office)
(607) 255-0242 (fax)
real_estate@cornell.edu


*This Cornell University Real Estate Case was prepared to stimulate analysis and discussion in undergraduate and graduate real estate courses. While the case is drawn from a range of actual experiences, it is not intended to illustrate correct or incorrect applications.*

# Convene:

## Pioneers in a Corporate Real Estate

## Revolution: Convene Takes Manhattan


ABSTRACT

This case focuses on two young entrepreneurs who have created a company with an innovative business model that caters to an underserved segment of the local meetings industry. They have managed to establish a successful foothold in New York City, with three thriving facilities and rapidly growing brand recognition. However, the company's co-founders have begun to think about expansion and whether their business model can be adapted for markets outside of Manhattan. The case gives a detailed overview of Convene's business model and the nature of its facilities. It then presents an investment opportunity in Boston, and asks students to consider whether the proposed project is suitable as Convene's first foray into a new market. Students are able to consider the opportunity from a market perspective as well as from an operational and financial perspective by analyzing the project based on the variables provided in the case. The case is intended to provide students with an understanding of deal dynamics from the perspective of both parties to the proposed transaction so that they can appreciate the interests that often influence deal structuring and how the different parties can appeal to those interests, while satisfying their own.


***This case study incorporates the following real-estate themes and issues:***

*Entrepreneurship*

*Corporate Real Estate*

*Deal Structuring*

*Market Analysis*

*Business Strategy*

# Convene: Pioneers in a Corporate Real Estate Revolution: Convene Takes Manhattan

By: Pierre Rigaud, Matthew Legge, and Dr. Susan Fleming

Chris Kelly and Ryan Simonetti peered out of the window of a Boeing 747 jet, on a flight from Boston to New York City in January 2013. As they looked down on Manhattan, its lights seemingly brighter than ever before, they sighed with affection. Their adopted hometown had provided a perfect incubation environment for their young, entrepreneurial company; a company that had pioneered a business model with the potential to revolutionize the local meeting industry, and change how corporations used large portions of their real estate.

Their company, Convene (formerly Sentry Centers) sought to satisfy corporate demand for local meeting space by leasing and staffing vacant and under-utilized corporate meeting centers and other idiosyncratic real estate for which there was otherwise no leasing market, and seamlessly anticipating and meeting the full extent of onsite and offsite workplace needs of their clients. Convene undertook extensive renovations at the facilities in order to bring them up to a world-class standard, and assumed responsibility for all of the facilities' operations, running a full P&L. This provided corporations that had under-utilized, poorly scheduled internal meeting space with flexible, off-balance sheet alternatives to carrying their own corporate real estate.

With three successful projects in Manhattan, all undertaken since its start up in 2009, Convene was poised to enter a new stage of growth as its leaders sought to evolve it into a more diverse, market-leading brand with a presence throughout the United States and, eventually, internationally. At the time, Convene had a presence only in New York City, although Kelly and Simonetti had recently been contemplating geographic expansion. This decision was recently accelerated by a telephone call that Kelly had received, presenting Convene with an opportunity to enter a new market (Boston) by taking over the internal meeting space of a Fortune 500 company.

After touring the facility they were intrigued, but as tempting as expansion was, they knew there were significant risks. Would their business model work outside of New York City? Was this the right opportunity to seize? And could they structure a deal that would provide adequate returns and protect them against the uncertainties of an unfamiliar market? Adjusting their seats into an upright position, they prepared to land in the city that had given them their start, hoping to take off for new markets soon.

## Chris Kelly & Ryan Simonetti

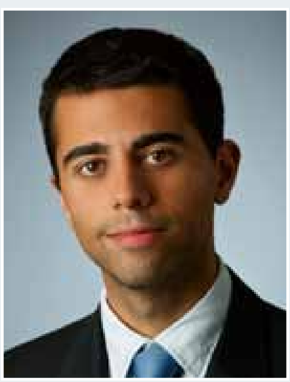
As undergraduate classmates at Villanova University in the early 2000's,

Chris Kelly and Ryan Simonetti always envisioned themselves pursuing careers as entrepreneurs in some shape or form. While at Villanova, their entrepreneurial ventures included an online textbook resale business, ticketed event production and a student travel service. Kelly and Simonetti also won the first annual Villanova Start-Up Challenge, a business plan competition.

After graduating from college the duo initially took separate paths, with Kelly moving to Aspen, Colorado and co-founding evoJets, a global private jet charter brokerage company


### Author

Pierre Rigaud, originally from Marseilles, France, graduated in 2011 from the Center of Hotel Administration in Paris with a degree in hotel administration. During his studies, he gained tremendous operational experience with renowned independent hotels such as The Ritz and chain hotels such as Four Seasons and Hyatt. He then enrolled at Cornell for a MPS with the Baker Program in Real Estate to pursue his passion. Pierre concentrated his courses of studies on hospitality and residential real estate, as well as sustainable practices in the industry. He is now employed as an associate with Hotel & Leisure Advisors, based in Cleveland, OH, a firm specializing in appraisals and feasibility studies for hotels and resorts nationwide. In his free time, Pierre enjoys debating politics, running, kayaking and experiencing new cuisines.

and Simonetti moving to New York City to take a position at Lehman Brothers and, later, as Vice-President with Gramercy Capital, a commercial real estate investment trust. However, before long, their career paths would converge with Kelly joining Simonetti in New York City to embark on an entrepreneurial adventure together.

## The Idea

Groundbreaking – that's the thought that consumed Kelly and Simonetti as they planned the future of Convene. Their idea was based on two simple propositions, namely that: (i) amidst the economic crisis that was ravaging the United States (and the global economy) in 2009, large corporations with internal meeting space would be eager to outsource non-core functions and to shed unnecessary real estate from their balance sheets in order to be more cost competitive; and (ii) there was a substantial market of meeting space users that were then un-served by traditional hospitality products.

Kelly and Simonetti believed that Convene's success would be driven by several important market trends. First was the increased use of technology, which was enabling companies to transition to increasingly remote work models, thus driving a reduction in the quantity of office space required per person. Second was increased interest on the part of corporations to secure more flexible cost structures. Third, and perhaps most notably, was greater focus on the part of many corporations on collaboration - something that would become a central theme of Convene's business model as it evolved over ensuing years.

Unlike hotels, which specialized in catering to business and leisure travelers and who often imposed onerous policies such as minimum room night stays in order to access conference space, Convene's primary focus would be on packaging and delivering conference services designed to meet the specific needs of the *local* meeting attendee. There was really no market leader in that space at the time, and Kelly and Simonetti felt that there was a tremendous opportunity to create an eventual franchise of executive conference centers. Convene's strategic advantages would come primarily through differentiation and specialization. Convene would initially be 100% meetings-focused and would offer dedicated expertise in conference services and planning; culinary and banquet food and beverage services; IT services and equipment; and sales and marketing (see **Exhibit 1 – Convene Signature Service Offerings**). They also intended to claim the lead market position in '*workplace collaboration*', a concept that traditionally had been limited to simple conference center operations and was only provided as a secondary offering by hotels (offsite) and food service providers (onsite). Kelly and Simonetti were determined that Convene would be much more than an event planning company. Instead, they would also control their own real estate, with the goal of creating a network of innovative venues; places for groups of people to participate in informative, creative and evaluative collaborations.

The pool of potential clients and partners was robust, and their interests well served by Convene's proposed model. Large companies such as PWC, IBM and American Express, for example, were being increasingly challenged by competitive pressures in the economy to maximize capital by removing under-utilized assets from their balance sheets. Landlords such as SL Green and Beacon Capital, who had dead conference space in their portfolios, were eager to fill vacancies with cash-flowing amenities that would differentiate their product in ways that were also attractive to potential and existing tenants. Hotels, meanwhile, were eager to capture any sleeping room demand for local meetings. Their conference centers were often loss leaders for sleeping rooms such that the opportunity costs of hosting local meetings without room night revenue was a losing proposition for them. Convene offered something unique and targeted to all of these parties, as well as others, and promised to help them gain flexibility, stabilize cash flows, improve tenant diversification and increase productivity. In addition, Kelly and Simonetti were careful to always emphasize that their


### Author

Matthew Legge is a recent graduate of the Baker Program in Real Estate at Cornell University. Prior to enrolling at Cornell, Matt worked in commercial real estate investment/development and practiced commercial real estate and corporate law, working in the capacity of Investment Officer and General Counsel with a major Canadian real estate investor/developer. Matt also worked with its affiliate in Zurich, Switzerland in establishing its real estate and infrastructure funds in Canada and Europe. He has also worked in real estate-focused private equity in the United States. At Cornell, Matt acted as the President of the Cornell Associate Real Estate Council, Editor of the Cornell Real Estate Case Study Series, President of the Cornell Real Estate Private Equity Society, Founder and President of the International University Real Estate Club Network, and Co-Editor of the Cornell Real Estate Review. Matt is active in several real estate industry groups, including the International Council of Shopping Centers who has recognized him as a Charles Grossman Graduate Scholar.


clients and partners would benefit from a vastly improved user experience, with Convene seeking not to merely replicate existing operations, but rather to significantly enhance them.

Upon launching Convene, the immediate priorities for Kelly and Simonetti were to secure control of premium space in close proximity to their target clients, and to lock in minimum guaranteed utilization by large corporate users. The key for Convene was convincing these corporations that their conference and meeting facilities were better off in Convene's hands than their own. Kelly and Simonetti would therefore have to quantify the value proposition that they offered and substantiate how it would yield both an enhanced user experience and tangible economic benefits. They would also have to address a plethora of the corporations' concerns. Chief among them was the fear of losing control of facilities that, while underutilized throughout a given year, were still deemed necessary for some portion of that time. Convene would have to figure out how they could maximize the use of, and revenue from, their spaces while preserving flexibility of use for these corporations and offering them access on a consumption basis without fixed costs or obligation. If they could crack that business model, they would really have something.

Kelly and Simonetti also decided at the outset that Convene wouldn't be a one- off facility or merely a lifestyle business. They were thinking big; in the long term, they would seek to develop a large, multi-city network and expand beyond their initial strategy of repurposing existing internal conference spaces. They would also evolve into designing their own proprietary program where space and service were specialized to support collaboration and productivity. However, before they could take on the world, they first had to demonstrate that they could conquer New York City.


### Author

Dr. Susan Fleming is a Senior Lecturer at Cornell's School of Hotel Administration experience with expertise in the areas of finance, insurance, business strategy, organizational behavior and issues of gender diversity. She currently serves on the board of Virtus Investment Partners, Inc., a publicly traded asset management firm; and Endurance Specialty Holdings, Ltd., a publicly traded global insurance and reinsurance company. Before retiring from Wall Street in 2004, Susan was a Partner with Capital Z Partners, L.P., a $1.85 billion private equity fund focused on investing in the financial services sector and an Analyst in M&A at Morgan Stanley.


## Marketplace and Demand

Kelly and Simonetti had good reason to feel enthusiastic about the market potential for their fledgling business. According to a 2011 study published by the Convention Industry Council (CIC), there were 1,790,800 meetings in the United States in the previous year, of which 71% were for business or corporate purposes, 15% were related to conferences and conventions, and 14% were for other purposes. 85% of those meetings were held in lodging facilities, while the rest were held in purpose- built facilities (7%) and other facilities (8%). There were an estimated 107 million participants in the 1,266,200 meetings held for corporate/business purposes, translating to an average of 84 people per meeting. Notably for Convene, 44.8% of attendees (over 48 million people) for corporate/business meetings were locals (defined as those who traveled less than fifty miles to attend a meeting and did not stay overnight in paid accommodations).

The marketplace consisted of two basic types of conference facilities: those that offered sleeping accommodations and those that did not. The latter were categorized as 'non-residential/ancillary centers' and accounted for 27.5% of the total venues in 2011.[1] According to a 'Trends in the Conference Center Industry' report prepared by PFK Consulting USA LLC and the International Association of Conference Centers, of those non-residential and ancillary centers:

- 21.4% were corporate centers, 28.6% were executive centers, 28.6% were university centers and the remaining 21.4% were ancillary centers[1];

[1] *'Corporate Centers'* are typically planned for the sole use of the parent corporation with specialized facilities but often become open market centers with changing corporate needs. These centers are usually designed to high commercial standards and can appear to guests as comparable to executive or even resort conference centers. '*Executive Conference Centers'* are most often used by corporations, associations, and other organizations that emphasize the quality of accommodations and services over price. This type of facility was developed primarily to satisfy upper-level management meetings and educational/ training seminars. Facilities usually include state-of-the-art audio/visual equipment and are staffed with conference coordinators. Recreational amenities are usually limited. '*Executive Conference Centers'* are usually located near urban areas with concentrations of large

- 57.1% were located in urban/city locations, 28.6% in suburban locations and 14.3% in resort locations;
- 42.9% were self-managed, 35.7% were managed by an external management company and 21.4% were self-managed with contracted services;
- 28.6% of the facilities were owned by a university/non-profit, 28.6% by a private hotel company, 21.4% by a private investor, 14.3% by a public company and 7.1% were owned by others;
- 64.2% had a local scope of attendance, 31.6% had a domestic (regional and national) scope and 4.3% had a foreign scope.

Kelly and Simonetti also delved into operating performance data for competitive meeting spaces in order to get smart quickly on what they could expect as a baseline to measure their own centers against. They first gained an appreciation for the physical profile of the existing stock of meeting facility product, which emphasized for them the importance of offering a multi-dimensional facility to users, rather than a single cavernous meeting space. It was typical for meeting centers to include a variety of room types, including amphitheaters, meeting rooms of various sizes (an average of 1,833 square feet and 40+ person capacity for large-sized meeting rooms and an average of 729 square feet and 15-40 person capacity for medium-sized meeting rooms), breakout rooms, dedicated boardrooms and dining rooms.

Notably, the biggest, and most pertinent direct expenditure for meetings in 2011 was planning and production ($109 billion or 41% of total meeting spending), which included technology services. Rental expenses for venues accounted for only 4% of total costs, or $11 billion, although it was sometimes difficult to disaggregate the cost of the space from the cost of the service (often referred to as ‘packages’ in the industry). [1]

Statistics like these were compelling to Kelly and Simonetti because they reinforced their theory that there was a sizeable population of local meeting attendees who were not well served by the existing offering of facilities and services. To address this market, the team would focus on first gaining a better understanding of the unique criteria that local meeting clients required, and then iteratively adapting their facilities and service model to deliver the best possible tailor-made experiences. Kelly and Simonetti would communicate this commitment to their clients explicitly, openly asking their clients to help them improve their business each and every day. They felt that this genuine commitment to constant improvement, together with their clear understanding of purpose, would resonate with clients and make it clear to them that Convene was a company that cared about the local meeting attendee. In short, Convene's founders thought that they could build a better mousetrap, and in turn, distinguish their offering from market alternatives.

These statistics also reinforced Kelly and Simonetti's contention that in order to thrive they couldn't just be real estate developers – they had to also offer high- margin services. Being an operationally intensive service provider with a sizeable staff and high fixed costs increased their risk profile, but it also offered Convene an opportunity to establish a reputation for exceptional service, which would form the backbone of its competitive advantage and future growth.

## Convene Gets Its Feet Wet

In 2009, Kelly and Simonetti began working on their first deal, one that would provide a tangible example that they could showcase as a proof of concept for Convene's business model. They were eager to firmly establish first mover advantage, by making a notable entrance onto the New York City real estate scene doing something unique and impactful.

corporate facilities. These conference centers are typically owned by a higher educational institution. ‘*College/University Centers*’ cater to college/university affiliated guests, Executive MBA programs, or the open market.

Their entrance would come through a relationship with TIAA-CREF, a Fortune 100 financial firm whose internal meeting facility at 730 Third Avenue, just three blocks from Grand Central Station in Midtown Manhattan became a perfect example of the value proposition that Convene was seeking to offer to clients and partners. In November 2009, in an unprecedented cost cutting move, TIAA-CREF, relinquished its very large and expensive internal conference center to the only people who would lease it at the time – Convene.

Pursuant to an 11-year sublease (with one 10-year option to renew), Convene took over the 17th, 18th and 27th floors of TIAA-CREF's New York headquarters. In a depressed, sub-tenant friendly market, Simonetti was able to negotiate sublease rent in the low $40 per square foot range. Convene infused services and updated all furniture, technology and equipment to transform the facility into an independent day conference center - a comfortable and tailored environment dedicated to business meetings (see **Exhibit 2 – 730 Third Avenue Photos**). The 44,961 square foot site quickly became the preferred offsite meetings destination for the Fortune 500 community in New York City. Meanwhile, TIAA-CREF retained the use of the facility for all of its meeting needs, turning a liability into a cash-flowing real estate asset that it could still utilize.

## Building a Scalable System

Kelly and Simonetti's first deal was an opportunity borne of the financial crisis that immediately put Convene on the map as an upstart company suddenly running the largest day conference center operation in New York City. It also accomplished what Kelly and Simonetti had sought out to do – tangibly demonstrate the value proposition that they offered prospective clients. But immediate success brought with it immediate challenges; now Kelly and Simonetti actually had to run a business.

Building a business meant assembling corporate infrastructure that would enable them not only to operate their first facility, but also to eventually scale into a world-class, market-leading brand. Although they were novices in the hospitality industry, Kelly and Simonetti each brought complementary skills to the table – with Kelly focusing on marketing, sales and public interaction and Simonetti focusing on finance and operations. Each only 27 years old when they began operating the company in October 2009, they had the drive and energy to get intimately involved in every detail of the company's day-to-day operations.

### *Financing*

Corporate infrastructure required a number of things, including capital investment and staffing. Luckily, despite the dire economic circumstances prevailing at the time, Convene was able to secure adequate financing in the form of a $1.2 million convertible note.

Convene could not afford to under-invest in its facilities, given the high profile nature of its prospective clients. Kelly and Simonetti recognized that offering world-class facilities, with world-class equipment and furnishings was essential to their success, and their prudent but substantial approach to investment reflected that belief. For example, between 2009 and 2012, Convene would invest more than $1 million in IT alone, seeing it as a crucial piece of their business model.

In order to maximize the use of cash, Convene made individual fixed asset investments and required that all equipment purchased 'finance' itself through future savings that could be offset relative to outsourcing, in a period of no more than 18 months. This approach prevented Kelly and Simonetti from overspending on capital investments while they were trying to get their company off of the ground. Other early capital investments included new conference chairs, conference tables, culinary equipment, and service tools.

## *Staffing*

To ensure effective and efficient operations, Kelly and Simonetti in-sourced 100% of Convene's services. The company motto, "where people and productivity meet", alluded to their commitment to offering industry-leading services within their facilities. Kelly and Simonetti would incorporate distinguished, in-house expertise in facility management, sales and marketing, meeting planning, food services, audio-visual, and IT into Convene's business model, positioning the company as a hybrid between a conference facility and hotel (but one without guest rooms).

Kelly and Simonetti were well aware that they couldn't give staffing short shrift. Humble about the learning curve that they themselves would have to go through as new entrants in the hospitality industry, and focused on creating the same collaborative environment in their own company that they wished to facilitate for their clients at Convene facilities, Kelly and Simonetti set out to hire exceptional, experienced industry veterans and enthusiastic young support staff who were attracted to a workplace full of positive energy and growth.

Unlike many entrepreneurs, Kelly and Simonetti put a premium on getting their corporate culture correct from the start. They pained themselves over developing the right organizational structure and creating a workplace environment that would motivate top talent to deliver an extraordinary customer experience, based on intensive training. Kelly and Simonetti saw this as a two-way street – in exchange for Convene's commitment to creating a vibrant, enjoyable workplace they expected their staff (including management) to buy into the start-up energy of their company, be willing to do any job that was requested of them and to occupy slow days by helping with general maintenance and upkeep. Kelly and Simonetti were just as committed to doing anything required to succeed; the two young entrepreneurs were regularly seen bussing tables and scrambling eggs in the kitchen.

Their passion for their business and their egalitarian approach had an enormous impact on their ability to gain buy-in from their team members. Kelly and Simonetti were thoughtful in how they approached relationships with and between Convene's team members. As Kelly put it, "From an organizational perspective it was often the case in our industry that staff and managers, especially in unionized settings, worked as adversaries. Much like how the United States' legal system seeks to find justice by pitting defense and prosecution against one another, staff and managers at other companies often worked under a similar dynamic. As opposed to a hierarchical pyramid org chart, our sites operated more like spokes around a hub (the GM). The organization was much more 'flat' and respect ran in, up and down the chain. This was very important to us and we worked hard on it."

In terms of structure, all non-site-specific operations, such as sales, accounting and finance, marketing, technology, planning, consulting and ownership were hosted at Convene's corporate office, which was moved into a dedicated centralized location. Kelly and Simonetti immediately moved to establish a corporate office staff that would enable them to quickly scale. Initial hires included ten salespeople, three accounting & finance professionals, one marketing manager and one technology sales/IT person, in addition to the two Convene principals. Convene's corporate office staff would grow as the complexity of its business increased.

Onsite operations, meanwhile, were to be run by a Head of Operations who would work directly with site-specific General Managers and department heads to oversee the operations of Culinary, Conference Production, Service & Operations, and Technology. The full-service nature of Convene's business model demanded that the company carry a sizeable payroll at each location. Each site would be self-sufficient, but resources would support other locations as needed, based on fluctuations in business volume. The Head of Operations would float between all locations and the corporate office, as would the Director of Technology.

## *Revenues & Expenses*

The meeting industry was seasonal and thus, one of the biggest challenges for Convene was to maintain steady cash flow over the course of each year. Seasonality became a constant issue. For example, Convene might run out of available space in certain periods of the year (March-April / September-October) and have too much supply during other periods. This challenge was made greater due to the non-seasonal nature of many of their expenses; they had steady fixed costs and payroll to meet for their numerous full-time employees, which often resulted in lumpy cash flows from month to month.

Convene derived revenue from a variety of sources. As Kelly and Simonetti realized from the start, the greatest proportion of revenues would come from compensation related to the services that they provided rather than from rental fees, which rationalized their 100% in-sourcing model. In addition to facility rental fees and a 23% administrative fee, Convene would also charge up to $200.00 per attendee per day, with the following revenue allocations: food & beverage - $140.00, technology - $25.00, and facility charge - $35.00. In addition, Convene would give clients the opportunity to enhance their food & beverage experience as well as their technology package through a series of pre-set enhancement offerings.

Convene's expenses, excluding its lease-related costs, fell into several categories, namely General and Administrative, Marketing, Food & Beverage, Conference Services, and Other Fixed Expenses.

## *Sales & Marketing*

At 730 Third Avenue, Kelly and Simonetti knew that they would enjoy a certain amount of utilization by TIAA-CREF, whose desire to retain use of the space for a portion of each year was an integral aspect of the deal that Convene struck with them. But crucial to Convene's business plan was attracting other companies to use the space on days when TIAA-CREF didn't need it. When Convene took over the 730 Third Avenue facility, the average meeting space utilization among non-residential/ ancillary meeting centers in the market was only about 50%[2]. Kelly and Simonetti thought that they could do better, targeting 80%.

It would take a carefully executed sales strategy to communicate to prospective clients what Convene offered. Although Convene's primary audience was Fortune 500 companies, Kelly and Simonetti wanted to diversify the company's client base to include a wider range of potential users, each appropriate for a particular quantity and intensiveness of space and services. In Kelly and Simonetti's minds, they wanted every possible corporate executive, commercial real estate agent, procurement executive, building owner, property manager, personal assistant, law firm, industry organization or association, company, event planner, hotel, media outlet, furniture manufacturer, architect and design consultant, among others, to know and believe in the Convene brand.

Kelly and Simonetti worked diligently to identify and understand their core target profiles, which came to include most notably: (i) meeting and event planners (typically middle-aged women or gay men); (ii) corporate executives and procurement executives (typically male, fiscally conservative and slow to move); (iii) private landlords (typically high net worth individuals with very particular preferences); and (iv) large institutional companies (typically less price flexible but quick to move).

To help drive success in this key element of their strategy, in early 2010, Kelly and Simonetti hired a Director of Sales, Greg Materdomini. Materdomini had over 15 years of sales and food & beverage experience with companies such as Millennium Hotels, Doral Hotels, the Parker Meridien and Sheraton Hotels. He became integral to Convene's doubling of its sales force and company revenues during its first year.

By the end of their initial operating year, it was clear to Kelly and Simonetti that repeat sales would form a crucial backbone of their business. They saw this not only as proof of the widely held belief in the industry that repeat sales were the most productive source for qualified sales, but also recognition that Convene's commitment to exceptional service was resonating with its clients.

## The Hunt For Space

Convene had to be discriminating in its site selection. The 'location, location, location' maxim held true, as it was crucial for the sites to be located in close proximity to clusters of Fortune 500 companies and other premium prospective clients. Sites also needed to offer column-free space to accommodate specific layouts and sight line criteria and had to allow significant ramp-up time, given the exhaustive renovations that the company would typically undertake. Aside from upper-level spaces in buildings like 730 Third Avenue, Kelly and Simonetti preferred retail-like exposure, with easy ingress and egress.

Deal structuring became a matter of savvy financial management. For example, Convene had to ensure that it didn't tie up excessive cash as lease security and had to negotiate below market (or at least non-peak, non-retail) rent for its spaces, which is why the sublease market was such a favorable play for Convene with its first deals. Kelly and Simonetti's advantage was that they could afford to lease irregularly shaped and almost awkwardly orientated spaces, as well as mezzanine and second floor space. This greatly enhanced the lease economics that they were able to achieve. They could pitch themselves to landlords as the perfect commercial space tenant; one that would lease awkward and difficult-to-lease space, and provide a useful amenity in buildings.

## Expanding Their Manhattan Footprint

With the success of the TIAA-CREF facility and a revenue generating business model, Convene continued to grow rapidly. In 2010, Convene secured a second space at 810 Seventh Avenue in Midtown Manhattan, signing a 10.5-year lease (with two 5-year options to renew) for 23,000 square feet of space in a facility that had once been used as a conference center for KPMG and that was most recently operated by a failed day conference center that had defaulted on its lease with the landlord, SL Green Corp. Convene was able to lease the space at a rental rate in the same low $40 per square foot range that it had accomplished at 730 Third Avenue.

Rather than utilize a pre-developed conference facility for 810 Seventh Avenue, as it had in the case of its 730 Third Avenue facility, Convene completely demolished and redeveloped the space from scratch. This became a blessing rather than a curse in that it provided Convene with the opportunity to build a facility that was responsive to its clients' preferences and Convene's operational needs, which Kelly and Simonetti had gained an intimate appreciation for through their operational experience with the TIAA-CREF site. This resulted in a best-in-class facility that proved to be more effective, efficient and profitable than its 'pre-built' predecessor.

In mid-2012, Convene executed on a third project, 32 Old Slip, which established a presence for the company in Downtown Manhattan. Convene leased 40,000 square feet of space from Beacon Capital on an 11-year lease, co-terminous with its other Manhattan facilities, and upgraded the as-built space for a targeted opening at the beginning of 2013. The space was previously Goldman Sachs' training center. As Kelly explained, "It was important for us to establish a presence in Downtown Manhattan. This was an up-and-coming place for businesses, and the location was significantly differentiated from our other two facilities at the time. It may seem at first glance like a small move, but it allowed us to cater to a whole new array of clients and expose our brand much more prominently across the entire Manhattan market."

## If You Can Make It There (In NYC), Can You Make It Anywhere?

In just three years, Convene's Manhattan facilities had served 64% of New York City's Fortune 500 companies. In 2012 alone, Convene had organized 900 meetings and had welcomed a total of 50,000 attendees. Convene had also shown a steady and substantial increase in revenue year after year. In 2010, it had $5 million in total revenue and slightly negative EBITDA. In 2011, it reached more than $11.2 million in total revenue and $1.5 million in EBITDA, representing a 12% margin. In 2012, it generated $14.9 million in total revenue, with an 18% margin. Convene was enjoying fantastic success - Kelly and Simonetti were even included in Inc. Magazine's '30 Under 30' List in 2011, an honor that Kelly also garnered separately for co-founding evoJets.

The fact that Convene started in New York City was no accident. New York City, and Manhattan in particular, offered an ideal mix of dynamics that created the initial opportunity for Convene to do something unique. As noted by Simonetti, "The stars just aligned in New York City. Nowhere else could you find a comparable density of Fortune 500 companies, which constituted the vast majority of our clients at the time. But although we were doing very well in Manhattan, the critical issue soon became whether we were going to be limited by the boundaries of the East and Hudson Rivers. We started to think about whether we could adapt our model for other markets, or whether Manhattan was just such a unique ecosystem that our business could only work there."

Fortunately for Convene, there continued to be sufficient room for expansion within New York City and the surrounding metro area, evidenced by the fact that Convene had to turn away 55% of its repeat business in 2011 due to capacity constraints. As illustrated in **Exhibit 3 – Manhattan Fortune 500 Density Map**, the concentration of Fortune 500 companies in Manhattan was remarkable. In fact, nearly 70% of Convene's revenue was generated from within a ten-minute walking radius of each facility. Expansion in New York City would allow Convene to continue to produce greater economies of scale across its business units. For example, resources such as hospitality services could be pooled, and sales contacts and partnerships with hotel chains could be leveraged. Word of mouth would also prove to be very effective locally - even in an enormous market like New York City, the real estate community was very small. The proximity of Convene's Manhattan facilities to its head office, not to mention New York City's excellent public transportation system, general business activity, and corporate density, were also significant advantages.

However, with an entrenched position in Manhattan and rapid expansion in mind, Kelly and Simonetti began to explore the prospect of playing in other metropolitan centers. There were concerns from the start. For example, Kelly and Simonetti wondered whether without immediate scale they would find it too difficult to support a single location for very long in another market. Despite their acuity with New York City real estate, Kelly and Simonetti also feared that they lacked the local market knowledge that would be required to identify and source truly exceptional deals in cities that were less familiar to them. Before they committed to a new market they wanted to know whether in an environment with lower real estate prices there would still be an adequate incentive for prospective clients to outsource their space in the same manner as they did in New York City. Transportation dynamics would also be a crucial part of the equation – for example, since suburban conference centers were typically more easily accessible in other markets than they were in New York City, they posed a much greater competitive threat to Convene's business model.

These factors, together with many others, gave Kelly and Simonetti valid reasons to prioritize local expansion in New York City before entering other cities. But in doing so, would they be missing out on wonderful opportunities elsewhere?

## Boston Comes Calling

Kelly and Simonetti's appetite for expansion into new markets would soon be tested. In January 2013, Convene was approached by BigCo, a Fortune 500 company with headquarters in Boston.[2] BigCo executives had heard about what Kelly and Simonetti were doing in Manhattan, and were interested in discussing whether Convene might be able to offer them a similar solution for their facility in Boston's Central Business District (CBD). BigCo management had undertaken significant downsizing during the recent recession and felt that its 40,000 square foot internal meeting center had become an expensive toy. Not only was it underutilized (BigCo used it for an average of only 50 days per year), it was also in grave need of renovation. With a distinctly 1980s feel and tattered finishes, BigCo executives felt that the meeting space had become detrimental to the company's image. BigCo commissioned an estimate in late 2012 that indicated that it would cost $4.0 million to bring the space up to the desired standard.

Kelly received a telephone call from BigCo's Chief Operating Officer, Charles Miller, in early January. Kelly spoke at length with Miller regarding what Convene offered large corporate users like them. Miller was intrigued and asked Kelly whether he and Simonetti could meet with him in Boston two weeks later.

With a dynamic city core, and a diversity of corporate activity, Boston was a thriving American metropolis in its own right. However, although Boston was large and vibrant, it did not offer nearly the same environment or scale that Manhattan did. For example, whereas New York City had an estimated 353.7 million square feet of office space in its various CBDs as of 2012, Boston's CBD office space comprised only 18.0% of that area. Kelly and Simonetti were already familiar with Boston, but became much more inquisitive as they considered whether the market truly offered a favorable expansion opportunity. They and their team spent the next two weeks diligently researching the market and talking about how their business model would likely fare there.

Kelly and Simonetti landed at Logan International Airport on the morning of the meeting and took a taxi towards the Downtown core. It had been more than two years since either of them had visited the city and they were impressed with all of the new development that they saw. When they arrived at BigCo's office, Miller and some other BigCo executives greeted them. After some brief introductions, they toured BigCo's meeting space, which consisted of 40,000 square feet spread among the 19th, 20th and a portion of the 21st floor of the building. Kelly and Simonetti exchanged numerous approving glances at each other throughout the tour. Despite the tattered edges, they saw the skeleton of a great space. From their experience transforming meeting spaces in Manhattan into world-class facilities, they had learned to see hidden potential that wasn't always apparent to others. With an adaptable floor plan and favorable orientation of columns, the space could easily accommodate Convene's 40,000 square foot prototype (see **Exhibit 4 – 40,000 SF Prototype**).

After a lengthy tour, during which Kelly and Simonetti peppered the BigCo team with questions, the group adjourned for lunch in BigCo's cafeteria. As they dined on what could only be described as mediocre food from BigCo's existing food service provider, Kelly and Simonetti offered some thoughts regarding the space. They began by expressing their agreement that the facility was very outdated, and required an immediate and significant renovation. Kelly and Simonetti had reviewed the preliminary plans and specifications, together with the budget for the anticipated renovation, and had decided there were creative ways to bring the scope of work down and still deliver a high quality product. Convene would use BigCo's conceptual design as a starting point, but adapt the plans considerably

---

[2] This is a fictional scenario introduced in order to facilitate the student discussion outlined in this case. Names, numbers and the scenario itself do not reflect actual events or circumstances.

in order to accomplish the user-centered design principles[3] that they had developed over the past few years.

Simonetti pressed Miller for information regarding BigCo's existing expense and staffing profile. Miller responded that BigCo had long used an internal food service program that had proved to be inefficient and expensive, especially in light of the food quality. "Let's put it this way guys, when we're trying to win an account we don't typically take people to the cafeteria" said Miller. Miller disclosed that their food and beverage-related costs were $400,000 in 2012, on top of labor costs of $200,000. Additional costs included $50,000 in taxes, $72,000 in utilities, $25,000 in repairs and maintenance costs, $75,000 in insurance costs, and $100,000 in an FF&E reserve. Miller also explained that they were responsible for an annual conference center café subsidy of $300,000 that included a $200,000 service fee and $100,000 of losses incurred by the operator. Simonetti also knew from some prior conversations that BigCo was paying $30.00 per square foot for the meeting space under its existing (gross) lease with the building's landlord.

Kelly asked Miller whether BigCo expected to receive any tenant improvement allowances from the head landlord to fund the renovations, to which Miller replied that nothing would be obtained until the lease rolled in 2020, at which point it would be a matter of renewal negotiation. With the renovation so urgently required, BigCo would have to go out of pocket to fund the project, absent a deal with a company like Convene. Miller also confirmed that the lease with the landlord would permit a sublease, with no profit sharing on the sublease rent. Miller mentioned that should they strike a deal, Convene would be asked to pay below-market gross rent of $24.00 per square foot per year under a sublease that would run coterminous, less a day, with the seven years that was left on BigCo's existing lease (BigCo also had two five-year options to renew).

After lunch, the executives sat down to talk about the deal in the BigCo library, a relic from the pre-financial crisis opulence that many large corporations became accustomed to in a less cost-conscious environment. It became clear that despite the fact that Miller summoned them to Boston, and had shown enthusiasm for a deal, several other BigCo executives were skeptical. Although the facility was plagued by under-utilization, these executives expected that it would be reborn through the pending renovation project and would soon be used much more frequently, although they couldn't accurately predict their utilization needs.

Several BigCo executives remarked throughout the meeting that BigCo could always simply lease out non-utilized days to other corporate users themselves, creating their own side business with the facility. James Parker, one of the junior executives in the room, argued "No offense guys, but why let someone else enjoy all of that rental income when we can lease it as an open market facility ourselves?" Kelly and Simonetti would need to convince Parker, Miller and the rest of the BigCo team that Convene offered something that BigCo could not easily replicate itself. Kelly and Simonetti preached the rationale that had been so appealing to other Convene clients, including the enhanced guest experience, cost savings, and all of the other benefits that they would enjoy. They had become very good at telling the Convene story, a task made significantly easier given their ability to cite the success of their existing facilities and the genuine satisfaction that their clients had expressed.

The meeting ended on a friendly note, with both parties expressing their intention to keep an active dialogue going in order to determine whether a deal made sense for both sides. Soon afterwards, over a beer in a Boston bar, Kelly and Simonetti debriefed. Kelly voiced his concern about the labor issue. Without the synergies enjoyed in Manhattan due to the flexible nature of their New York City staff, whose mandates often overlapped

[3] 'User-Centered Design' (UCD) was a design methodology employed by Convene in its facilities. UCD involved continuously assessing organizations' needs for productive meeting environments through research, observation, interviews and focus groups. Convene developed and fine-tuned every aspect of its spaces and service to create the most effective, efficient and convenient collaborative experience possible.

several facilities, they would have a less efficient payroll in Boston, not to mention a greater equipment burden since all Boston-based equipment would be dedicated to a single facility for the immediately foreseeable future.

Simonetti began sketching out some numbers on a bar napkin. "Let's assume that our total labor costs, including wages and benefits would be $1.0 million in the first year, with a 5% increase in years two and three and a 3% percent increase in years four and five. Add $500,000 for G&A and grow that at 3% across the horizon. And regarding reno costs, I think that we can actually shave 15% off of their $4 million budget and end up with a much nicer facility using our 40K proto."

"What do you think we'd see in annual marketing expenses?" Simonetti asked Kelly. "Let's call it $600,000 in annual costs attributable to Boston and not otherwise already paid for by our existing centers, and grow that at 3% also" said Kelly. Simonetti continued, the numbers now spilling onto several napkins spread across the table. "Let's take the numbers that BigCo gave us for taxes, utilities, insurance and R&M and escalate them at 3% per year. I'd estimate F&B costs at 15% of gross revenues. Let's also assume that we'd incur an annual $100,000 café subsidy, and grow that at 3% per year. Let's also add a $2.00 per square foot supplement as a real estate tax allocation on the sublease."

Simonetti added that they should assume an FF&E reserve of $100,000 in the first year, and then assume an ongoing annual reserve equal to 3.0% of gross revenues for each year going forward. This would ensure that they allotted sufficient capital to keep the facility up to the world-class standard that had become an integral part of Convene's identity. On the same token, Simonetti noted that they should assume $150,000 in IT costs for the first year, and grow that by 3.0% each year thereafter. These were the kind of costs that deterred many potential competitors from taking on the risk of facilities like theirs.

When the topic of revenues arose Kelly and Simonetti had a long conversation about what they should expect in a new and unproven market, with Simonetti finally summarizing their revenue assumptions on a fresh napkin, "Realistically, we could expect to serve 25,000 attendees our first year, 27,500 in the second year, 30,000 in the third year, and stabilize at 35,000 in year four and beyond. Boston is a softer market than New York, so revenues have to reflect that. Including administrative fee and enhancements I think we can get to $200 per attendee on an all-in basis. This is a 25% discount to what we're able to get throughout our New York portfolio."

Kelly asked Simonetti what he thought they should assume for utilization from BigCo., noting "They clearly want some optionality, so let's ask them to simply commit to 50 days of utilization each year, based on 100 attendees at the open market rate, and give them the flexibility to add extra days if they'd like in the future. Do you think that there's going to be friction on asking them to pay the open market rate?" Simonetti replied by saying that he agreed with the approach, noting "Listen, that's a great deal for them – they have minimal fixed exposure and don't have to finance the reno costs. When we show them the comparative numbers on a before and after basis, they'll be excited."

In order to hit their minimum IRR hurdle of 20%, Kelly and Simonetti assumed they would finance the facility through a combination of equity and debt capital. Without any TI contributions the total costs for the deal would be $3.8 millon ($3.4 million for the build-out and another $400,000 in working capital and start-up costs). They'd already been pre-approved by a commercial bank for a $2.0 million, 5-year term loan at 8.0%, with full amortization over 30 years, to fund their next deal and currently had $3.0 million of cash on hand.

Simonetti synthesized a few last numbers and slid a napkin across the table towards Kelly. Kelly turned it over, smiled and nodded in agreement. Their flight was soon departing, so they paid the bar tab and headed back towards the airport in a taxi.

## A Bridge Too Far?

As their plane descended upon New York City, Kelly and Simonetti reminisced about the prior three years and the entrepreneurial adventure that they had enjoyed together. In a very short time, they had gone from inexperienced hospitality industry professionals bussing tables in their first facility, to nationally recognized business leaders responsible for employing almost one hundred people.

They had both recently gotten married and their interests, goals and priorities were now different than they had been years before. Taxiing towards the gate, they both quietly wondered whether it was wise to take their company beyond the relatively safe haven of the city that had been so good to them. Much of their success would depend on astute negotiation with BigCo in order to structure a deal that penciled out for them. Growth was tempting, but was this the right opportunity?

Exhibit 1

Convene Signature Service Offerings

| Category | Signature Services |
|---|---|
| **Conference Services** | Turn-key systems, signature standards, facilities management, event planning & staffing |
| **Food & Beverage** | Executive dining, banquet, catering, cafeteria, event staffing and vending services |
| **Event Technology & IT** | Event administration, technician staffing, audio-visual purchasing and maintenance |
| **Sales & Marketing** | Revenue management, advertising, marketing and direct sales |

Exhibit 2

730 Third Avenue Photos

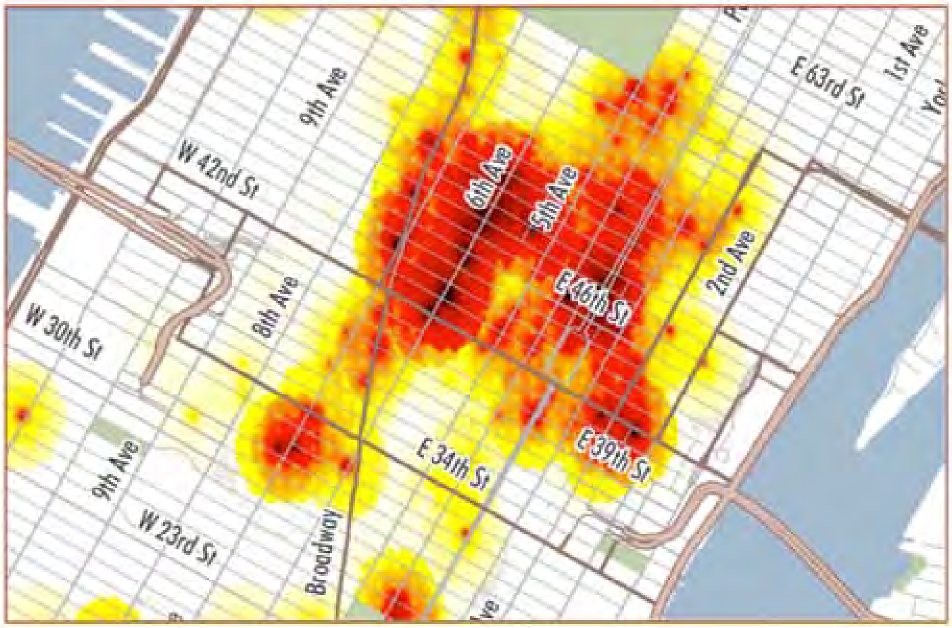



Exhibit 3

Manhattan Fortune 500
Density Map

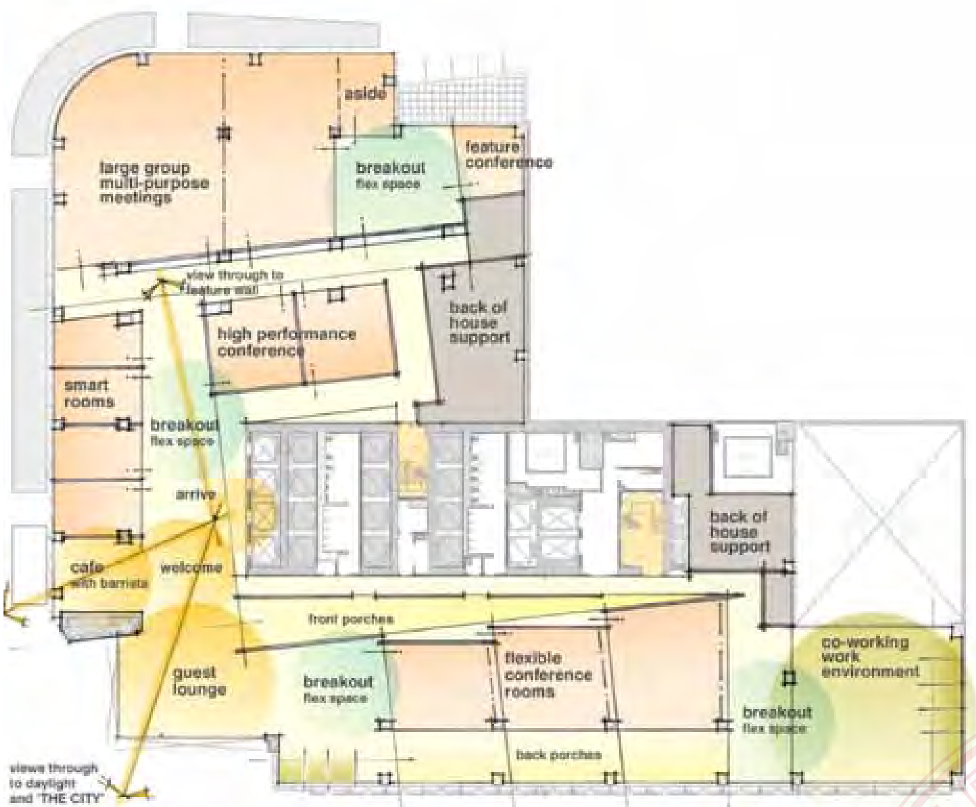



Exhibit 4

40,000 SF Prototype

## (Endnotes)

1 *The Economic Significance of Meetings to US Economy, Convention Industry Council, February 2011*

2 *'Trends in the Conference Center Industry' report prepared by PFK Consulting USA LLC and the International Association of Conference Centers*

Cornell University
Baker Program in Real Estate

114 West Sibley Hall
Cornell University
Ithaca, New York 14853