

# HOTEL RESTAURANTS — SOLUTIONS TO PROFITABILITY IN THE '90s

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There was a time when hotel restaurants were the jewels in the crown; vibrant and exciting centers of social activity and cuisine in their communities. More importantly, they were profitable. The fast track to becoming a general manager, historically, was through food and beverage operations.

As we enter the next decade and indeed the next century, hotel restaurants need to regain their place of importance in hotel operations from both a guest and profitability perspective.

Given our current market conditions, the question remains — how can we achieve this end? Currently the supply of hotel rooms continues to exceed demand. New rooms are being added nationwide at an annual rate of 2.1 percent, while demand is growing only at a rate of 1.5 percent. This fact in and of itself wouldn't be troubling if it wasn't for average occupancy rates hovering around 65 percent nationally. If restaurants were to be supported solely by hotel guests, these declining figures indicate that the future is a bleak one indeed.

Almost more important than the continuing decline in occupancy is that the '80s have been the era of the independent restaurant. In the early '70s, all one could generally find were basic steak and potato restaurants with a smattering of traditional French and Italian operators. Today, most cities have restaurants with cuisines from practically every country in the world. As a result, independent restaurants have come of age. Creativity and professionalism are the new buzz words. Communities are now looking to independent restaurants to provide excitement, expecting (and indeed demanding) better and more innovative dining experiences. Unlike hoteliers, restaurateurs are not bound by years of tradition. They seem to have openness to try new things and an eagerness to strive for innovative solutions to problems. The independent restaurateur has become a sophisticated marketer and is fast becoming a public figure with bankable "star" potential. This has been vividly demonstrated by the current vogue of "celebrity" chefs.



To further compound the problem, a food and beverage department in a hotel is competing against other profit centers for return on investment. Moreover, it doesn't make it any easier when hotel restaurants are capital as well as labor intensive. As a result, hotel developers are becoming disenchanted with investing in large public spaces and are increasingly taxed by the enormous dollars needed for restaurants.

So, what can be done? Should hotel operators abandon their restaurant outlets and let the local market feed

hotel guests? An examination of current market conditions shows that hotel guests continue to spend on average more in hotel restaurants than patrons in independent restaurants. Check averages at hotel restaurants in 1987 was \$12.25 while for independent restaurants it was \$10.50.

The challenge facing the hotel industry is to not only get all house guests to eat in the hotel but to get the "locals" to patronize the restaurants as well. How can this be accomplished? Basically, hotel operators have two options:

either contract out to a restaurant with brand name identification or operate it themselves, doing a better job than their independent restaurant competitors. While many companies have contracted out their restaurants (i.e. Embassy Suites using the Velvet Turtle) this alternative is not problem free. Conflict of interest between the hotel and the contractor, especially in catering and banquets, can create operational nightmares.

The most effective approach to address this impending crisis is for hoteliers to learn to be better food and beverage operators. To successfully accomplish this end, one needs to completely rethink the traditional approach to operations. The following are some strategies to consider:

### **ORGANIZATIONAL STRUCTURE**

Traditionally hotels have broken down food and beverage into produc-

tion and service. It is commonplace to see the executive chef operating independent of the food and beverage manager. Outlet managers in turn are responsible only for service while restaurant chefs are accountable exclusively for production (food costs). This decentralization — while creating channels of responsibility — fails to create adequate accountability for bottom-line profits. It is relatively easy to provide excellent service or excellent food when not held accountable for ultimate profitability. The philosophic change suggested here is to stop making managers responsible for just getting the job done but rather to hold them accountable for the profitability of their outlet as well. Additionally, it appears that when managers are not held directly accountable for profits they are neither as creative nor as innovative in problem solving. These are two essential ingredients necessary for staying competitive. An examination of restaurant operators (where outlet managers are accountable for everything) shows evidence of great promise.

Chain operators like TGI Fridays now give their managers overall control of production and service, resulting in enhanced performance. Restaurant managers who are viewed as general managers of their individual outlets and who are held accountable for both production and service, when properly trained out perform their colleagues.

Tied to the concept of reorganization, one should also consider performance based compensation, in which bonuses are tied to overall profitability, as an additional tool to maximize performance. If independent managers can make decent salaries because of bonus/incentive programs, why can't hotel restaurant managers?

### **STIMULATING THE ENTREPRENEURIAL SPIRIT**

Tied to the basic need for reorganizing the food and beverage department — hoteliers need to look at allowing their managers to do what they are hired to do — to make a profit. Managers who are bound by rigid corporate procedures find their creativity stifled. Managers need to be empowered to make decisions, especially if they are being held accountable for the results.

This is not to say that there is no place for corporate control. Every company needs to set guidelines, enforce standards and establish procedures. However, the challenge is to do all that and still give each manager the power to make decisions along with the mandate to be creative and aggressive in these ever changing and very competitive times.

To accomplish this end, operators need to create a competitive environment within the hotel similar to what one is now seeing in the restaurant industry. Friendly in-house rivalry will spur a healthy profit environment.

### **CONTROLLING COSTS**

Historically successful restaurant companies have enforced productivity standards through the monitoring of numerous elements, such as labor productivity by the hour or meal. Oddly enough, few hotels currently employ this management tool. Food and beverage directors must hold each restaurant/outlet manager responsible for maintaining specific productivity standards. Giving them the authority to make decisions and the license to be creative is not enough, they need to be given the resources to be successful. One, if not the most important resource is designing operating systems that generate timely information so that managers can make effective decisions. Managerial access to operating systems that make it easy to calculate labor productivity per meal gives managers instant feedback which allows them to see how they are performing on a daily/weekly basis. This can be accomplished by either a manual or computerized approach.

### **MAXIMIZING THE HOTEL'S COMPETITIVE EDGE**

On a positive note, hotels have an inherent competitive edge over independent restaurants which needs to be fully exploited. There is an obvious advantage to having a captive audience, the hotel guest, to draw from. Attracting them as a customer the first time might be relatively easy. Getting customers to come back the next night is nearly impossible unless both the food and service merit that loyalty.

A hotel restaurant is usually part of

a larger organization and, as such, has access to several resources which most local restaurants don't have: public relations, graphics departments, a sales force and other advertising and promotional resources. All should be drawn upon to maximize repeat guest business of the outlet.

Lastly — the ability to work closely with the front office, PBX and concierge services will maximize guest exposure to the restaurant product, increasing the

odds for successful repeat business.

In conclusion — while the answers above are not startlingly new, the need to successfully implement a fresh approach grows larger and more immediate as occupancy rates continue to decline. Changes in the market and the tax laws demand that all operating departments achieve an ROI. The above strategies and suggestions will go a long way to achieving greater profitability and greater guest satisfaction.