

LODGING

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Value Meals

How hotels are adjusting F&B operations for a rough economy—without leaving their guests hungry for better service.

by Jeff Colchamiro

In tough economic times such as now, every area of a hotel needs to look at its operations and see where it can create efficiencies. The challenge is providing the same quality and level of service for a smaller number of guests. For food and beverage operations, hotels must make sure their restaurants, bars, catering, and in-room dining are all meeting demand but not losing their profit margins or creating losses.



“You’ve got a couple of things working in tandem,” explains Chad Crandell, president of Capital Hotel Management. “One is declining demand. Whether it’s catering or your in-house capture from guests, the numbers are down. You have to figure out what you can do differently to stem the reduction in revenue.”

The second part of the problem, he explains, is that many properties are seeing different customers than they’re used to. The economy has forced properties to cut rates—and a lower rate brings in guests who may not be used to spending as much. “It’s sticker shock,” Crandell says. “You’re staying at a beautiful Four Seasons hotel at a \$200 rate, but you go in to have breakfast and it’s \$30 or \$40 a head.”

Slimming Down

So what can hotels do to adjust? Crandell says the first thing properties should do is look at their hours of operation for each food and beverage outlet and see if they still work with the current occupancy and guest demand. “We do a fully allocated profit and loss statement (P&L) for each outlet,” he says. “You’d think that’s intuitive, but many of the hotel chains don’t do a fully-loaded F&B-outlet P&L. They allocate kitchen expenses, for example. Or management expenses are not put in there or allocated across different outlets.



“In order to really see what’s going on you have to develop a P&L, ideally by meal period, to see how your outlets are performing,” he continues. “Once you’ve done that you can begin to understand what’s profitable and what’s not.”

One example he offers is in-room dining, which is rarely very profitable for hotels even in better times. A full-service hotel can’t eliminate room service, but it can shut it down for a period of time in the middle of the

day when guest demand is low anyway.

Crandell also suggests making sure different outlets in a property aren't competing against each other. If there are two restaurants serving lunch but most of the business is going to one of them during that time of day, maybe the other one can close for a few hours.

The key is to only cut where there's a legitimate lack of demand, so guests' needs are still being met. Of course, brand standards also have to be maintained, which can cause friction between a property and the brand. "You always have that tension, especially in a down market like now," Crandell says. "But at the end of the day, even as an ownership group, you can't make short-term decisions that will negatively affect your property long-term. So you have to take care of your customers, especially your frequent guest on rewards programs and your corporate volume customers."

Some properties, however, don't think cutting hours is the answer. Douglas Browne, general manager of the Peabody Memphis, admits his hotel has had to make adjustments. But it has not cut service positions or hours of operation for F&B outlets. "The businesses that stay true to their quality and service are the ones that come out stronger and better when this all ends," he says. "First and foremost businesses should stay focused on quality and service. They shouldn't let that slide or cut in those areas."

Instead, the Peabody cut 150 positions in the last year through attrition, not layoffs. Those jobs were in areas such as human resources, accounting, and purchasing—not staff members who deal directly with guests. "Servers are some of your cheapest positions," Browne says, "and they're revenue-producing. It doesn't make sense to cut that staff."

The property has found other creative way to cut costs. For example, the Peabody's Sunday brunch used to be held in its skyway, which was scenic but labor-intensive and inefficient. By moving it to the main hotel level, closer to the kitchen, the hotel was able to save about \$7,000 a month in labor, allowing it to lower the price for diners and increase profitability.

Sell, Sell, Sell

Both Crandell and Browne agree that cost savings will only get you so far. "Cost containment is not the only salvation during a recessionary environment," Crandell says. "You can't just cost contain yourself through it. You try to make appropriate decisions to pull back your cost structure within the hotel in all areas of operations. But at the end of the day it's about generating revenue and doing a better market share against your competitors than you have historically."

In the case of the Peabody, Browne says the emphasis is on sales. The hotel has about 65 salaried managers. Rather than reduce that number due to the economy, the managers now spend two days a week working with the sales team to market the hotel and its outlets to local businesses.

"I've found in my career that during tough times the operations team gets so focused on cutting and saving that they forget about selling," he says. "We want to make sure everyone is focused on selling. Because we're not going to save ourselves into prosperity; we have to sell ourselves there."

Look Local

With occupancy down, the Peabody has looked to its local market to increase F&B revenue. Its specialty events, such as rooftop parties and Mother's Day brunch, are still successful. The Peabody also lowered prices at its Corner Bar to ensure they were competitive with other downtown establishments. And its aiming to draw in local crowds.

"Once a week we call up a

local company and say, congratulations. You've just won a party at the Corner Bar for you and 25 of your colleagues for happy hour next Tuesday," Browne explains. "The first drink is on us. So they bring people in, we buy them the first drink. And they always stay and have more."

The Peabody also uses social networking Web sites such as Facebook and Twitter to promote local events and stay in touch with the community.

Whether it's by cutting hours of operation, finding other efficiencies or marketing to a local crowd, all properties have had to make some adjustments to keep food and beverage profitable. "In F&B you never really drove a lot of margins," says Crandell. "So you really have to scrub and operate smartly so it doesn't turn into a cost center within the hotel."