

Hotel Investment Strategies

How Can Hotels Make Money On F&B?

Most hotel food and beverage departments are big money losers when all expenses are properly accounted for. Hoteliers tend to regard foodservice as an amenity—a necessary evil that must be available to guests to be competitive. Very few hotel operators have been able to think out of this box and run the food-service businesses like a real restaurateur.

Departmentally, food and beverage costs for a hotel typically range from 78% to 90%, which equates to a 10% to 22% profit margin. The expenses allocated to the food and beverage department include the actual cost of the food and beverage sold, salaries and wages, operating supplies, uniforms and laundry. Not included in calculating food and beverage departmental profit are a host of additional expenses such as administrative and general, sales and marketing costs, heat, light and power, repairs and maintenance, management fees, property taxes, insurance and rent. When these added expenses are deducted from the thin departmental profit margins, it is easy to see why hotels generally operate their food and beverage facilities at a loss.

After performing this simple financial analysis, the logical question to ask is, how do freestanding restaurants make money while hotels typically are unable to operate on a break-even basis? In defense of hotel operators throughout the world, there are some simple reasons why a full-service lodging facility will probably never achieve the same level of profit as a comparable restaurant.

For example, hotel restaurants must operate during unprofitable time periods. Breakfast has always been a big money loser. When was the last time you saw a 3-star restaurant serve breakfast? While the food cost might be a little lower for breakfast, the cost of labor is similar to other meal periods and other expenses are about the same. The problem lies in the inability for hotel restaurants to generate the same revenue per cover (meal) for breakfast as they can for lunch or dinner. The result is a money losing meal period that must be provided as it is an essential amenity for hotel guests.

The financial results become even bleaker when roomservice is substituted for a restaurant breakfast. The added labor cost of delivering and retrieving meals to hotel guestrooms is astronomical and highly unprofitable. Some solutions to reducing the breakfast cash drain include buffets, vending, along with in-room coffee and juice. A few hotels, such as the Regency in New York City, have been successful in positioning their restaurants as the place to go for a high-priced "power breakfast." If the world-famous Brennan's restaurant

in New Orleans can achieve an average breakfast check of US\$30-\$50 with eggs sardou and bananas foster, hotels should be able to do the same.

Many hotels were not designed to showcase their foodservice venues. Successful hotel restaurants typically have their own identities, including dedicated parking and entrances, special signage and street visibility. The interior décor needs to incorporate the current freestanding restaurant trends such as open kitchens, martini bars and an innovative look. The sterile décor of many hotel dining rooms is simply not conducive to attracting the dining public.

The latest trend for turning around a money losing hotel food-service department is to bring in restaurateurs (sometimes famous chefs) to take over the operation under either a management contract or a lease. They often bring with them a proven restaurant concept that generates substantially more revenue by attracting not only hotel guests but local residents as well. Restaurateurs seem more focused on controlling operating costs than hoteliers and they are usually more entrepreneurial in their approach to doing business. Some of the famous chefs that are focusing on hotel food-service include Emeril Lagasse, Todd English, Alain Ducasse and Larry Forgione.

In addition to achieving success with a famous chef, some hotels have opted for incorporating a brand name restaurant concept. Hilton saw this potential 40 years ago when they formed a joint venture with Trader Vics—a Polynesian style restaurant. Today hotels have linked up with Ruth's Chris, Wolfgang Puck, TGI Fridays, Pizza Hut, Starbucks and even McDonalds.

With intense competition from the limited-service sector, full-service hotels now need to differentiate themselves by offering foodservice venues that rival the best restaurants in the market. When this strategy is implemented successfully, hotels will benefit from better food and beverage departmental profits and most likely higher room occupancies and rates as well. ♦



By Stephen Rushmore, MAI, CHA, president and founder of HVS International, a global hotel consulting firm with offices in New York, Miami, Denver, San Francisco, Vancouver, Mexico City, London, New Delhi, Singapore, São Paulo and Toronto. Mr. Rushmore can be contacted at 1.516.248.8828 Ext. 204.