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Hotel Restaurant Solutions

Turning a Headache into an Opportunity

DAVE MANSBACH, *Co-President, HVS Executive Search*
JEFF KOLTON, *Principal, Franchise Market Ventures, LLC*

HVS EXECUTIVE SEARCH
369 Willis Avenue
Mineola, NY 11501
Tel: +1 (516) 248-8828 ext. 262
E-mail: dmansbach@hvs.com

FRANCHISE MARKET VENTURES, LLC
142 West End Avenue, Suite 30P/R
New York, NY 10023
Tel: +1 (646) 645-7903
E-mail: jeffreykolton@fmvllc.net

In this unprecedented economy where hotel occupancy and rates are significantly down, hotel owner/operators are forced to closely review EVERY aspect of their operation to squeeze out revenue/profitability opportunities. If approached correctly, an area of great opportunity can be that of outsourcing property restaurant operations to a professional restaurant brand/operator.

Currently there are over 50,000 hotel properties operating in the United States, most of which offer restaurant options to their guests. While most of these are profitable at a departmental level, when all of the restaurant's expenses are properly accounted for, a vast majority of venues are unprofitable. In addition, most lodging owner/operators consider the running of their hotel restaurant to be a necessary evil, as the operational and managerial demands far outweigh the related revenue streams. However, when done correctly, an effective hotel restaurant will generate greater restaurant sales/profitability, enhance RevPAR and increase asset value. The key is to retain the benefits of the restaurant operations, while outsourcing the headaches.

When evaluating a partnership with a restaurant brand/operator, the hotel owner must consider three key elements: deal structure, operational considerations and restaurant brand/operator selection. This article addresses basic issues that influence both hotel owner/operators and restaurant brand/operators in evaluating an outsourcing opportunity.

Deal Structures

While we have encountered a wide array of deal structures, the three most common are a lease agreement, a franchise agreement, and/or a licensing arrangement. It should be noted that these are general deal structures and that "best practice" partnerships moving forward will require a great deal of creativity and flexibility from both parties.

Lease Agreement - The restaurant brand/operator typically operates the hotel restaurant with non-hotel employees and pays the hotel facility a percentage of gross sales. Best practice lease deals have pay-for-performance components built into the agreement including minimum base rent, profit sharing and performance termination clauses. In most cases a majority of the restaurant conversion cost is covered by the hotel with the restaurant brand/operator contributing a reasonable amount of capital to show commitment and have "skin in the game".

Franchise Agreement - The hotel operates the restaurant brand with hotel employees and/or hires a professional third party restaurant management company (in some cases the management company will be the franchisee). The hotel facility will pay an upfront franchise fee and on-going royalty fees based on a percentage of restaurant sales. Although the hotel – as franchisee – still covers the cost of conversion, creative franchisors have worked with property owners to modify their design specifications to reduce overall conversion costs, allowing for a better ROI for the hotel owner/operator.

Trademark License Agreement - The hotel operates the restaurant brand with hotel employees and/or hires a professional third party restaurant management company (which may be affiliated with the Licensor). The restaurant brand will provide all menu-related support, (recipes, purchasing guidelines, menu design), initial training and may provide a key employee (e.g. executive chef, general manager). The hotel facility will pay an upfront license fee and/or an annual back-end fee based on net profits. While conversion costs are typically covered by the hotel facility, these fees may be capped at a certain level, requiring the Licensor to cover special equipment or design elements. We have seen overall fees paid in this deal structure decreasing recently for all but the most bankable brands and celebrity chefs due to a spate of failures.

Operational Requirements

As a hotel asset is a complex operation with a lot of moving parts, factors surrounding operational requirements must be considered. To avoid any surprises, listed below are items that should be addressed prior to moving forward with any restaurant brand/operator.

- Will the restaurant brand/operator be working out of a shared kitchen (a kitchen utilized by other areas of the hotel operations i.e. room service, banquets)?
- What meal periods will the restaurant brand/operator be required to serve?
- Will the restaurant brand/operator be in charge of running room service and/or banquet operations?
- Will the restaurant brand/operator be required to work with union employees?
- Which group will handle initial and refresher training on the new restaurant concept?
- Who has control of the financial reporting requirements for the restaurant?

If the resolution of ANY of these items is not embraced by both parties we strongly recommend not proceeding with the partnership.

Restaurant Brand/Operator Selection

A third critical area when considering a partnership requires appropriate analysis of the ideal restaurant brand/operator. Historically, the lack of focus and attention to this key issue has led to an underwhelming selection of hotel restaurant concepts that were either homegrown or outsourced without the due diligence necessary to find a match relevant to the property's customer base and local community. Areas of consideration should include:

- Restaurant brand demographic analysis
- Restaurant operator experience with hotel operations
- Financial health of restaurant brand/operator
- Local competition (or lack thereof) within the segment
- Restaurant brand experience in other non-traditional venues
- Restaurant brand's commitment to, and experience in, local marketing

Conclusion

If outsourcing your hotel restaurant operation to a professional restaurant brand/operator is under consideration we are confident that if you refer to the points mentioned in this article you will be well-positioned to structure an optimal hotel restaurant solution leading to greater restaurant sales/profitability, RevPAR acceleration and increased asset value.

About the Authors

David Mansbach is Co-President, North America for HVS Executive Search, specializing in retained executive search and compensation and organizational development consulting for the lodging, restaurant, retail and gaming industries. He is a frequent lecturer on industry related issues and has written many articles with publications such as Hotel Business, Hotels Magazine, Chain Leader Magazine, Nation's Restaurant News, Restaurant Business Magazine, Restaurant Finance Monitor and Chain Store Age Magazine on issues relating to executive selection, pay for-performance, corporate governance and executive leadership. Additionally, David is an investor in GrowthPoint Partners an investment firm specializing in early stage restaurant and retail companies.

Jeff Kolton is Founder of Franchise Market Ventures, LLC. and has entered into a joint venture partnership with HVS to execute on The Chain Restaurant & Hotel Industry Partnership Program. With over 25 years of experience at the highest levels within the legal, research, marketing and finance sectors, Mr. Kolton brings a unique perspective and an invaluable rolodex to every deal he works on. He has been a partner in one of the leading franchise law firms in the country (Kaufmann Gildin); founded and built the leading franchise research firm in the country (FRANdata Corporation); was a member of the Board of Directors of the industry's leading trade association (the International Franchise Association), and was elected to the highest position among industry suppliers by his peers (the Supplier Forum).

Together they have created a groundbreaking program the Chain Restaurant and Hotel Industry Partnership Program. CHIPP has been created to introduce our portfolio of exclusive best in class restaurant brands/operators to hotel owner/operators looking to excel in the area of hotel food & beverage.

For more information on CHIPP please view the following: http://hvs-executivesearch.com/CHIPP