

F&B: Which Is More Profitable – Outsourcing or In-House?

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Hotel Food and Beverage (F&B) operations increased in revenue value by 4.9% during 2017, according to a **report from STR**. This is clear evidence that F&B is still an important revenue stream, second to accommodation income, but it is profitable only if companies optimize the way they operate the division.

Outsourcing is a popular way to take the problem off a company's plate, but is it necessarily the best option for their hotel and bottom line? **At HVS, we believe that profit should not be the primary motive** and that the main reason for having food and beverage facilities in a hotel is to enhance the Rooms Division revenue. This enables the hotel to offer dining facilities for guests, while the restaurant benefits from access to a continuous stream of potential diners.

With demand expected to remain strong enough to deliver growth of 5% in 2018, it is clear that maintaining the F&B function is still a viable strategy for most hotels. The question is: How do hotels maximize their profits from F&B while simultaneously ensuring they provide quality service to complement their other offerings?

F&B Delivers 25% of Revenue

Food and beverage typically represents around one quarter of a hotel's total revenue. Measuring profitability can be challenging and is such an integral part of a hotel's operations that isolating its contribution to the annual results can be difficult. A **2016 analysis by CBRE Hotel's Americas Research** of the financial performance of F&B showed banqueting food services delivered 36.5% of the total F&B revenue, followed by 21.1% from other food venues in the hotels and 11.9% from beverage venues.

To keep up this level of turnover, many hotel chains are re-engineering their food services to showcase flexible lobby and outdoor spaces that encourage social interaction. Locally sourced offerings are in high demand; thanks in part to the environmental movement and socio-economic factors. Adopting this trend helps hotels compete against local restaurants, which are also trying to own the "planet-friendly" space. Hotels, meanwhile, are placing extra emphasis on upscale, casual dining to attract a wider range of guests and provide a quality overall dining experience.

In Favor of In-House Services

Many hotel operators learned a steep lesson in the past by **outsourcing food services** to high-profile chefs and restaurateurs. It was a great idea for a while, but a five-star environment where guests have high expectations and anticipate an Iron Chef popping out from the kitchen was doomed to failure in most parts of the world.

When it comes down to brass tacks, the reasons most hoteliers give for outsourcing their food and beverage services are that they simply do not have the skills in-house to manage them, and that hotel guests mostly do not dine in their hotels (although breakfast dining trends have been shown to invalidate this claim).

Many hotel owners, managers and operators have realized that by pursuing an in-house solution instead of

Summary

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abdicated their F&B responsibilities to third parties, they can simultaneously address the current need for differentiation, create exciting options for their guests, and preserve F&B outlets as profit centers in their hotels.

Benefits

The benefits of keeping F&B in-house are numerous. You get to keep creative control of the offering for both in-house guests and destination diners. You retain the ability to add to your revenue and profit streams, and your hotel is empowered to provide career opportunities for the members of your Food and Beverage teams. A hotel that has a management or culinary team and infrastructure in place to support the development of an in-house restaurant and/or bar concept can only be a good thing.

Risks

Naturally, there are inherent risks in attempting to manage such a specialized service. It can also be challenging for a team to market a hotel restaurant as a destination for non-hotel guests. To do so, you will have to set aside the budget to build and maintain the facilities, employ trained and experienced staff, deliver exemplary food and service, and promote the venue. This can be a tall order for any team more experienced in offering room accommodations than food services, and it can potentially result in the operation becoming a low-profit-margin business.

Making the In-House Model Work

One company that has successfully developed an in-house model is UK-based Ennismore, which is currently expanding **The Hoxton** from a single hotel to a multi-property organization in the US and Europe. With an open-house concept and lobby, The Hoxton has never been just about room accommodations. Several spaces are available for meetings, parties, private dining and the hotel's own events, and restaurants and bars serve coffee, food and cocktails from morning until late evening. They work with local chefs and operators to craft menus containing dishes unique to their market, along with some comfort food classics. The idea is that hotel guests come to immerse themselves in local culture, while locals come anytime.

Outsourcing to a Third Party

The hotel industry has historically outsourced multiple functions to food service operators, security companies, parking operators, landscapers, concierge services, laundry providers and sound/audiovisual professionals. They do this to keep up with the changing labor market demands, manage increasingly high benefit costs and better meet the needs of their guests. Options for outsourcing in 2018 are even broader, as vendor companies begin specializing in certain niches and offering improved efficiencies for lower costs.

Primary Success Factors

Key issues when you are considering outsourcing an F&B function are finding a reputable service provider who understands the market and audience, ensuring there is no reduction in quality or control, and balancing the efficiencies gained by outsourcing with the desire to build the expertise and talent on your team.

Another important matter is choosing the **type of arrangement to conclude** with the food service operator. This could take the form of a lease agreement, a management contract, a consulting arrangement or a licensing agreement (or any combination of these). Issues driving this decision could include the term of the arrangement, the services to be provided and the fee structure. A **lease agreement works best**, for example, when a hotel has several restaurant facilities and plans to outsource only the specialty restaurant with its own kitchen and storage areas.

The decision to outsource F&B should never be based on "getting rid of a problem" and should rather be aimed at providing more accountability to the service delivery standards. This approach will enhance the opportunities for both guests and management.

Benefits

The benefits of outsourcing include some obvious advantages, such as the fact that service providers are subject

matter experts in their field. Outsourcing gives your hotel the opportunity to:

- Earn a reliable revenue stream from rent, whether the contractor's company is profitable or not. Even if the rental agreement is tied to turnover, such agreements usually leave "wiggle room" for both parties to ensure it is a viable deal during a slower economy.
- Keep your staffing consistent, without having to adjust it to meet market demands for F&B.
- Avoid having to implement cost-cutting measures that impact the overall operation of the hotel.
- Enjoy the ability to offer hotel guests a reliable food and beverage service, regardless of any labor issues affecting your company.
- Deliver a heightened focus on excellent food services, which is difficult to match when F&B is a peripheral service for your team.
- Display the dedicated expertise and resources to meet the challenges of the environment, which an established third-party F&B provider has.
- Leverage economies of scale in purchasing, assuming the contractor's operation includes more than just your hotel's F&B services.

The overall advantage of all these factors is a seamless experience for the guest that complements the efforts of the hotel.

Risks

The primary risk facing hotel management from a third-party F&B outsourcing agreement is the loss of control over their service offering. This is often not limited to operational jurisdiction, but applies equally to creative control over the concepts, the promotions, the marketing, the special offers and the effects on profitability of all these facets of the business.

Taking an Innovative Approach

The hotel industry offers many examples of outsourcing, such as the NYC-based **Al Fiori restaurant** at The Langham, New York hotel. The high-end French-Italian venue operates under the same ownership as the adjoining Bar Fiori, so working together is paramount to offer guests a seamless dining experience. The restaurant also collaborates with hotel staff and external parties like Uber to develop opportunities for diners both on and off-site, which increases revenue and ultimately enhances profitability. This innovative approach to an outsourcing arrangement illustrates how lateral thinking can positively impact the results.

Choosing a Model

As is so often the case with options, each scenario for managing your F&B operations has its pros and cons. While it is obvious that financial benefit is a vital aspect of the decision, hotel owners also need to determine which route fits in best with their own investment time frame. If a lender is involved in hotel ownership, they should be consulted to avoid any after-the-fact complications from their direction.

Both outsourcing and development of a new internal concept are important projects that require a lot more attention and focus than going along with the traditional hotel dining room premise. The returns are likely to be more beneficial as well.

About **Court Williams**



Court Williams is Chief Executive Officer of HVS Executive Search based in New York and has over 29 years of retained Hospitality Executive Search experience within the Hotel, Restaurant, and Travel/Leisure industries. He began his career in the restaurant industry after graduating from Cornell's Hotel School gaining operational experience prior to launching a career track in Human Resources with an international restaurant company. Having gained experience in executive recruitment from the brand side, the desire to work with a broader range of hospitality clients led Court to a career in retained executive search beginning in 1990. Court has expertise in leading senior hospitality executive searches across all functional areas including Board Director, CEO, Operations, Human Resources, Marketing, Finance, Development, Culinary and Supply Chain. His client base includes private equity firms, hotel management companies, restaurant companies, travel technology brands and leisure venues. Court also leads the global growth strategy for HVS Executive Search and is on the Advisory Board of Shift One. He remains an active Cornell alumnus and is a student coach with Cornell University's Hospitality Leadership Development Institute, as well as The Samuel Curtis Johnson School of Management's MBA Marketing program. Court earned his Bachelor of Science degree in Hotel Administration from Cornell University. For more information contact Court at +1 (516) 248-8828 ext. 220 or [\[email protected\]](#).