Outsourcing Restaurant Operations in Hotels: A Great Solution to Raise the Hotel F&B Brand Awareness

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Abstract

The main aim of this research is to investigate the threat and opportunities inherent in a hotel operator asking a third party to manage a part or the entire food and beverage department. This phenomenon seems to be a surprising concept, but some great examples show that historically it can be beneficial both for the hotel and the operator. If it is done properly, this creates a real win-win scenario for the hotel and the F&B operator and will surely stimulate customer demand. Through an exploratory method, 12 key informants, such as hotel executives and managers, were interviewed. The study found that managers recognised that hotel restaurants lack competitiveness against free-standing restaurants. Moreover, managers have expressed enthusiasm towards outsourcing through co-branding, franchising and leasing out space. Furthermore, this study provides recommendations for hotel restaurants to enhance and reclaim their competitiveness amidst globalisation, internationalisation and changing market and customer trends.

Keywords: F&B, Hotel, Restaurant

1.0 Introduction and Objectives

Running a successful and profitable F&B operation is crucial, as spending on food ranks third after accommodation and other shopping activities in tourist expenditures (Promsivapallop, Jones & Roper, 2015). That is why finding the right concept for the right place is important. As mentioned by Youn and Gu (2010), to be profitable in a restaurant, the manager/entrepreneur should not only have the knowledge but also, more significantly, a true sense of business. As reasonable businessmen, hoteliers, from Old French “hostelier” which originally means an inn keeper (Hotelier, 2017) should give way to restaurant experts if they would like to be successful in the hospitality industry, particularly in F&B services.

As an example, in Dubai, most of the popular dining or bar places are located on a hotel roof, but the management is under another helm. Iris in Oberoi, Amika in H Hotel, Buddha Bar at Grosvenor Hotel, to name a few, are the best examples. The codes, grooming and service style differ from the hotel chain’s DNA, and customers perceive a different vibe, which is also appreciated. As mentioned by Ashton and Scott (2011), the co-branding of a hotel with an “independent restaurant theme owner” stimulates customer demand. The decay between brands makes the result even more exciting and interesting. These daring concepts have been possible because of regulations that allow alcohol licenses only in a hotel setting. Given this, is this model duplicable in Asia, where hotels will contract free-standing restaurants and brands to operate their F&B outlets?

Despite the outsourcing of F&B operations becoming popular (Lam & Han, 2005), most research in this area has been on manufacturing firms, and only a limited amount has been in the context of hotels (Promsivapallop et al., 2015), such as Hemmington and King (2000) in the UK, and Espino-Rodriguez and Padrón-Robaina (2004) in the Canary Islands, Lamminmaki (2005) in Australia, Lam and Han (2005) in Shanghai, Barrows and Giannakopoulos (2006) in Canada, Bolat and Yilmaz (2009) in Turkey and Promsivapallop et al. (2015) in Thailand. Gonzales, Llopis and Gasco (2011), in a study of the development of research in the outsourcing of hotels, postulated that research in this area only emerged in the year 2000, compared to research in other businesses that started as early as the 1990s. The researchers further argued that most research used transaction-cost theory (TCE) and a resource-based view to explain outsourcing decisions. In addition, most studies did not use a theoretical framework to develop their models and dealt with outsourcing a particular functional area of a hotel and the impact, risks and reasons for outsourcing decisions. Thus, this current study addresses a gap in previous research by focusing solely on hotel restaurant outsourcing.

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While the study of Hemmington and King (2000) and Barrows and Giannakopoulos (2006) also only focused on hotel F&B operations, the former studied the key success factors of a hotel restaurant outsourcing relationship, and the latter studied the reasons for entering into outsourcing agreements. This current study, on the other hand, through an exploratory approach, aims to investigate the opportunities and threats related to outsourcing F&B operations in the Asian hospitality industry by investigating the competitiveness of free-standing restaurants vs hotel restaurants.

2.0 Research Questions

The research questions are as follows:

1. What are the strengths and weaknesses of a hotel restaurant vis-à-vis a free-standing restaurant?
2. What are the opportunities and threats related to hotel-restaurant collaboration?
3. What are the opinions of hotel managers towards outsourcing, franchising and co-branding of F&B operations in the context of an Asian hotel?

The framework of this paper will be divided into three parts. First, the previous literature is discussed in relation to hotel restaurants versus free-standing restaurants, outsourcing and co-branding to establish the context of the study. Next, the data collection and analysis methods are explained. Following that, the results are analysed, discussed and reinforced by the literature. Lastly, the conclusions of the study are presented, which detail the study’s implications and its contribution to knowledge.

3.0 Literature Review

In the 1990s, during the world recession, hotels were pressured to increase their cash flow by looking for ways to make different departments profitable (Hemmington & Kind, 2000). Today, with globalisation and the increase in international travel, hotels are even more pressured to retain a competitive advantage to ensure maximum profits. To add to that, consumer dining preferences are also fast evolving given the advent of technology. Consumers of today are more informed about restaurants and give value to the reviews of other consumers. In this competitive climate, this has led hotels to accept that service operations, which they are not good at, are best left to be done by specialists (Espino-Rodriguez & Padrón-Robaina, 2005), and only those services that give them a competitive advantage will be done internally (Gonzales et al., 2011). In effect, due to the business environment, hotels have learned to be creative in solving cost- and quality-related problems, which includes downsizing, the elimination of some functions, collaboration through franchising, leasing arrangements and outsourcing (Bolat & Yilmaz, 2009).

3.1 The Need for a Mutation of the Hotel Restaurant

Apart from the highly competitive business environment brought about by the expansion of globalisation, the global development of successful free-standing restaurants in the last decade has also strongly impacted the F&B business of hotels. As mentioned by Jean Michel Offe, Vice President of F&B for Shangri La Hotels and Resorts, in an interview on the Hotel and Asia Pacific website in June 2002 (Shellum, 2002), “Hotel restaurants are falling victims to street-wise competitors … with funkier concepts and more adventurous cuisines”. Over the years, hotel restaurants have been seen to be lagging behind these independent restaurants and have seemed to be out of tune with new customer trends (Hemmington & King, 2000). Likewise, it does not bode well that hoteliers view F&B as a necessary evil; a service that they need to provide to guests but which does not contribute as much to the hotel’s profits although this can be caused by the traditional manner in which hotels merge their restaurants’ income statements with the hotel’s overall financial performance, and thus hotels do not see the true potential of their restaurants (Barrows & Giannakopoulos, 2006). In addition, hotel F&B in the past has been seen negatively in that guests would rather go somewhere else for their dining needs (Barrows & Giannakopoulos, 2006). In a report of STR Global, published on the Hospitality Trends website (Hospitality Trends, 2017), Asia Pacific hotels as of February of this year have experienced an 8% increase in occupancy, a 5% decrease in room rate and a 2.6% increase in RevPAR (Revenue Per Available Rooms). With the increasing number of hotel guests, this should translate into more diners and profits for hotel restaurants if they are able to capture this market.

3.2 Free-Standing Restaurants vs Hotel Restaurants

Apart from the negative image suffered by hotel restaurants, one may wonder how a free-standing restaurant with high operating costs can compete with a hotel restaurant considering that operating costs such as rent, utilities, marketing and cleaning and maintenance may be lower since it can be shared with the hotel. Hanson (1984) pointed out three factors that affect the hotel F&B profitability, and they can be categorised as follows: role and purpose, location and design, and staffing and organisation.
First, looking at the core of a free-standing restaurant, its sole purpose is to make profits for the owner, while the primary purpose of hotel F&B is to serve hotel guests. With this, both have different business orientations and serve different purposes.

Hotels also incur higher operational costs because of the need for more qualified and well-trained staff to ensure that food is provided to guests at every mealtime and that the service level of the restaurant is on par with that of the hotel. Moreover, the presence of many F&B outlets in the hotel, the presence of room service and the provision of employee meals to all the departments and not just their own also adds to the operational expenses. Second, hotels are designed and located to attract guests in need of accommodation and not necessarily guests who are in need of food. Oftentimes, free-standing restaurants also attract diners because of their visibility as compared to hotel restaurants that cannot be seen from the outside of the hotel. In addition, costs are higher to operate a hotel restaurant occupying a larger space that is only filled during peak periods as compared to a free-standing restaurant with a smaller space but one that is packed with diners. Furthermore, the image of being busy is also good for the restaurant. Lastly, hoteliers, owners and corporations are not directly involved in day-to-day F&B operations as compared to the hands-on approach of restaurateurs. In addition, given that the organisational structure of a hotel restaurant is also more complex, there are more people involved, which means higher payroll costs, training costs and a higher level of control and bureaucracy.

On the other hand, aside from considering the core identity of the hotel restaurant business as a factor affecting its profitability, in an article in The Atlanta Journal-Constitution, it was mentioned that potential customers are turned off if they perceive hotel restaurants to be only for hotel guests and that they are expensive and “stuffy” (Stafford, 2011). In another article on the Hotel Business Review website, Morgan Plant, Vice President of F&B of Joie de Vivre Hospitality, argued that it takes a true restaurateur to manage F&B because management, oversight and detail-oriented skills are needed because of the high costs, staffing issues and opportunities for theft and pilferage (Plant, 2017). In the same way, Hemmington and King (2000) argued that hotel management is not the same as restaurant management, and over the years, as a response to internationalisation and international travel, hoteliers have shifted their core skills to focus on increasing room revenues and have overlooked F&B. They have argued that hoteliers are faced with the challenge of managing F&B because unlike room bookings that are made in advance, restaurant customer demand is more difficult to forecast, which makes operations difficult to control. In addition, restaurant management involves constant face-to-face interaction and is concerned with controlling variable costs such as labour and materials as compared to hotel management that has a high fixed-cost structure and is concerned with a time-focused yield management. Thus, hoteliers may be well equipped to manage the hotel, but not all hoteliers can effectively manage F&B. Consequently, hoteliers may be better off entering into collaboration with a free-standing restaurant, considering they are specialists in F&B operations.

In spite of being unavoidable, it is recognised by the industry that having a restaurant in a hotel is compulsory for the luxury market as it not only represents an important revenue stream, but it also positively affects the hotel’s image through its reputation and being able to respond to customer expectations (Ashton et al., 2011). Boone (1997, p. 35) argued this by calling into question the ability and skills of hoteliers and proposed that hotel F&B needs a mutation, as “for years hotel companies have struggled with unprofitable, oftentimes unmanageable food and beverage operations”. 3.3 Co-branding as a Response to Hotel F&B mutation

As an answer to the harsh competition, some hotel chains decided to bring in a third party to help or to operate their F&B area on account of convenience, reputation or knowledge. As a customer is more likely to choose a familiar restaurant over one that is unknown (Boone 1997), some hotel operators have investigated the co-branding option. Guillet and Tasci (2012) defined co-branding as a marketing strategy whereby two or more brands collaborate to enhance their brand equity that will lead them to achieve their organisational goals. The study detailed that from the hotel’s perspective, the restaurant’s brand can bring in more traffic to the hotel, and likewise restaurant operations will be more efficient in recognising that the contracted restaurant brand is more experienced in F&B operations. This type of hotel restaurant collaboration is also seen as a differentiation strategy where the hotel restaurant now has a unique and distinctive product to offer amidst the competition (Ashton & Scott, 2011). This strategy is popularised by the success stories of the likes of T.G.I Fridays in Holiday Inn Hotels, Doubletree Hotel Corporation with the New York Restaurant Group, Marriott Hotels with Ruth’s Chris and Benihana, Four Seasons Hotels with Bice Ristorante and Sheraton Hotels with the Sheraton Cuisine brand that includes Starbucks coffee, Vie de France baked goods and Robert Mondavi wines (Ashton & Scott, 2011). However, the disadvantages of co-branding include a lack of flexibility and challenges regarding the delineation of operations, such as who takes care of banquets and in-room dining.
On the other hand, Wassier, Wang and Hung (2015) discussed that franchising is also another mode of collaboration, which is characterised by a franchisor that is the restaurant operator and the hotel as the franchisee contracting its services.

3.4 Co-branding Through Outsourcing F&B Operations

From the operator’s perspective, on top of the brand-value added, the hotel benefits from short-, medium- and long-term financial gains from the image of co-branding, and this can also be done through an outsourcing strategy (Hua & Dalbor, 2013). Outsourcing is defined as a management strategy through which an organisation, in this case a hotel, forms a strategic alliance with another organisation, such as the supplier, to provide particular services and, in effect, reduces costs and risks and improves efficiency (Lam & Han, 2005). It involves the hotel entering into an agreement with a supplier to deliver services that were previously being done by the hotel or even new services (Espino-Rodriguez & Padrón-Robaina, 2004), thereby allowing the hotel to focus on its core competencies (Lam & Han, 2005) such as providing accommodation. Aside from the cost reduction brought about by the supplier’s economies of scale and the hotel’s concentration on its core competencies, hotels also outsource to improve the quality of the contracted service, knowing that specialist suppliers are more capable than they are (Espino-Rodriguez, 2004). Outsourcing also allows hotels to decrease their staff volume and appears to be a solution for the cyclical nature of the industry (Gonzales et al., 2011). Thus, outsourcing is seen to have a positive impact on hotel operations, as the strategy reduces cost, improves quality, service and flexibility and enhances hotel financial performance (Espino-Rodriguez & Padrón-Robaina, 2004). Moreover, Bolat and Yilmaz (2009) found that outsourcing also led to improvements in effectiveness, productivity, work-life quality and social responsibility. However, Lamminmaki (2005) argued that some hotels are not open to contracting out their F&B services because of the risk to the hotel’s reputation should the supplier perform below expectations. The scholar added that in some cases it is essentially the brand of the F&B supplier that facilitated the outsourcing process. In this case, a good partnership is also considered as a strategy, which leads companies to become stronger through their association. Both entities of the partnership have a “brand capital” which can benefit each other in a win-win opportunity (Espino-Rodriguez, 2004).

As mentioned, the literature concerning outsourcing of hotel management has suggested that hotels engage in outsourcing to be able to focus on their core competencies, such as selling rooms, and that they entrust the F&B side to a third-party specialist. However, as mentioned, it is also possible that a good outsourcing partnership will also give both the hotel and the restaurant a competitive advantage. Hence, as suggested by Barrows and Giannakopoulos (2006), it is not a question of whether F&B is a core competency amongst hotels, but this depends on the individual companies and their respective strategies.

This type of system has increased exponentially, especially in the UK and USA (Guillet & Tasci, 2008). It is not a recent mutation of the hotel F&B offer, as most of the American brands such as mid-scale brands like Holiday Inn and Choice or upscale brands such as Starwood and Hilton were exploring this operation format beginning in the 90’s (Boone, 1997). As described by Parsa, Self, Syndor-Busso and Yoon (2011, p. 360), “chain restaurants were found to have significantly lower failure rates”.

In a more luxury setting, hotel managers tend to bring celebrity chefs to operate their outlets to compete with other restaurants and to benefit from the chef’s image (Hum, 2003). Hong Kong is one of the leaders of this type of F&B inspiration with multiple celebrity chefs like Pierre in Mandarin Oriental, Nobu and Spoon by Alain Ducasse at the Intercontinental Hong Kong, etc., and some hotels make it a unique selling point (Marina Bay Sands in Singapore with 7 celebrity chefs under one roof). There is indeed a growing trend in celebrity chef enterprises in Asia, as this is a strategy for chefs and restaurant developers to expand their market shares both in their home country and abroad, and as well as to diversify and reduce risks (Henderson, 2011). However, the same researcher detailed that caution must be taken with regard to securing investment funds and ownership agreements, maintaining food and service quality, sustaining the celebrity chef brand image and managing of the daily operations, considering that not all chefs may be entrepreneurs.

Despite outsourcing getting mixed reviews with respect to the propensity of hoteliers to enter into this kind of arrangement, the previous literature is positive that outsourcing will continue to increase in the future (Espino-Rodriguez & Padrón-Robaina, 2004; Lam & Han, 2005; Barrows & Giannakopoulos, 2006). Thus, in this research, outsourcing is defined as a strategic alliance between a hotel and a third party, such as a free-standing restaurant, to manage and operate its F&B. This research investigates the threats and opportunities related to hotel restaurant outsourcing in the form of co-branding, franchising and leasing out restaurant space as a response to increased globalisation and competition among hotel restaurants and free-standing restaurants.
4.0 Methodology

Due to the exploratory nature of this study, a qualitative approach has been taken to reveal the data in a manner that is as close to reality as possible (Saunders, Lewis & Thornhill, 2009).

Data will be collected through conducting semi-structured interviews that will allow interviewees to fully express their opinions and allow the interviewer to probe and build on their answers. To understand whether co-branding strategies can be duplicated in an Asian setting, the researchers will interview key leaders with experience in hotel restaurants.

4.1 Prequestionnaire

To have the most relevant data and to be able to filter the most appropriate pool of respondents for the study, the researchers decided to narrow down the interviewees based on their experiences and on their knowledge of F&B. Eleven of the 12 respondents had experience of more than 3 years in Asia. For the sake of convenience and knowledge, the researchers approached their closest personal and professionals contacts. The researchers ensured that they had a large, broad panel to make the research relevant.

Based on the literature, a simple questionnaire was elaborated, and eight questions were asked (Appendix A). As previously mentioned, the researchers managed to gather 12 testimonies. As Patton (2002) mentioned in a research, there is no minimum to validate findings for a qualitative sample size.

4.2 Description of the Panel

Appendix A gives a clear description of the different profiles of the interviewees that highlights their competence in the field and justifies the quality of their responses. The diversity of their backgrounds is also very broad, ranging from hotel operations to corporate level. All interviewees have been key decision makers in top flagship hotels and key hotel chains.

The researchers divided the interviewees into 3 categories, based on their involvement in corporate or hotel operations, using the definition below:

- Operational: Day-to-day involvement in the operations (100% focused on operations)
- Corporate Operational: Dual role, with both actions in a hotel and in the corporation at a regional level (30% to 50% corporate; 50% to 70% operation)
- Corporate Non-Operational: Purely corporate-based in an external office away from any daily hotel responsibility (100% focused on corporate strategy)

Due to time constraints, out of 12 interviews, 4 (33%) were done via Skype, 5 (42%) via phone and three (25%) via email. The interviews which were performed via Skype or by phone had a duration of approximately 1 hour each. Two interviewees were given the questionnaire prior to the discussion. Any respondent could refuse to answer any question without any justification. The researchers mentioning to each respondent that they were answering on behalf of themselves and not on behalf of their companies—which helped to gather valuable feedback—was a golden rule. All interviews were conducted in English, and all transcripts were taken as notes from the interviews. Content analysis was applied to analyse data, and manual coding was done to identify major themes based on the research questions. All interviews were conducted in 2018.

5.0 Results Analysis and Discussion

As a matter of maintaining confidentiality, each interviewee is quoted by a nickname and their positions. Such as “RP6” VP F&B Accor Global, Vice President of Accor Global for Respondent n6.

5.1 Attractive Competitiveness of Hotel vs Free-Standing: A Dark, Pessimist Snapshot

First, 100% of the respondents realised that free-standing restaurants are a real threat to the F&B hotel business, and the snapshot is mostly pessimist. “RP9” Hotel Owner reminded the researchers about the main aim/target of the hotel, which is to sell a very profitable room (up to 60% on his side), and about the F&B department being a decorative amenity.

Regarding the fight between the two business models—free-standing vs hotel restaurant in unanimity—the panel defined the gap by the level of creativity. Hotel restaurants are guilty of having poor and non-attractive concepts. “RP12” Area GM South Vietnam enforced his statement regarding a need for radical change and that nowadays, in any business, it is “innovate or die”. “RP11” opening hotel general manager highlighted the fact that free-standing restaurants are closer to the local market, which puts hotel F&B at a disadvantage.
Both “RP6” VP F&B Global and “ST” Opening GM mentioned the reality of hotel restaurants’ pricing being an obvious factor for attractiveness and local understanding. Hotels have often been seen as overpriced.

All the corporate non-operational interviewees mentioned that the focus of the general manager was unfortunately on catering breakfast and banquets, which represents almost 70% of the total revenue of the F&B department in a hotel. Adding to that, “RP6” VP F&B Global mentioned that the GM and the director of F&B were both comforting themselves in being a purely receptive business. Interestingly in a more optimistic picture, “RP4” Hotel Manager mentioned that there is a space for everybody and hotel restaurants, which are doing better, are the ones that have real F&B expertise in their DNA. “RP1” F&B Director witnessed it in a case of a successful partnership of an outsourced restaurant under one roof. “RP1” F&B Director further elaborated on the fact that a restaurant in a hotel should either be a destination, or the hotel as a destination can be an attraction for the F&B, such as tasting a piece of luxury through their coffee. Opening a restaurant should thus have a clear and strong promotional angle.

Four respondents explained the fact that hotel or corporate structure is killing the empowerment of the managers and reducing their sense of entrepreneurship. It is linked to the decision process, success-oriented mindset and obsolescence or inexistence of marketing strategies for restaurants in hotels. To respond to that, “RP6” VP F&B Global and “RP12” Area GM South Vietnam somehow pinpoint the weight of a hotel owner’s decision in a strategic business. “RP12” Area GM clarified that a GM as an entrepreneur can be a reality; however, their hands are strongly tied in Asia especially by the owners.

The findings are consistent with the literature in which, over the years, hotel restaurants are seen to be being left behind by free-standing competitors (Hemmington & King, 2000). Hotel restaurant managers attribute this to the DNA of hotel restaurants; that is, hotel F&B is made to serve guests in contrast with free-standing restaurants whose main goal is to make profits for the owner (Hanson, 1984). In addition, the innate organisational structure of hotel restaurants also affects their profitability, as owners are more concerned with making profits and actually have the final say in decision-making (Hanson, 1984). While GMs can be entrepreneurs, the complexity of their positions having to manage the different departments in a hotel simply makes this impossible. True enough, not all GMs also have the capacity to think like their free-standing counterparts since hotel management is perceived to be different from restaurant management (Hemmington & Kind, 2000). Thus, GMs can very well learn from free-standing restaurant managers.

5.2 No Debate on the Number of F&B Outlets: Less is More

The researchers gave the respondents a case study where they had to describe how many F&B outlets a 350-room hotel should have and the type of outlets. In general, all the respondents agreed on having a reduced number of F&B offerings. The maximum number of outlets described was mostly from one to three even in a very competitive setting.

“RP1” F&B Director and “RP2” F&B Director explained that the number of outlets is important; however, the popularity is even more important. It is better to have an all-in-one concept and have a single full restaurant than having three to four restaurants that are empty.

“RP4” Hotel Manager added that in a hotel and a resort, the diversity of the food concept is especially important in luxury hotels. The perfect guest journey in a luxury setting should also involve diverse experiences, and hotels should be able to offer a choice broad enough for the guest not to experience a repeat of the cuisines if needed. Therefore, a choice of around four should be required. Interestingly, this approach is far from the rational vision but has real business sense. The resort experience in a luxury setting is a complete experience where rooms and F&B have the same level of importance to guests, with F&B being an amenity crucial to guest satisfaction. In terms of strategy, accommodating breakfast and MICE (Meetings, Incentives, Conferences, Exhibitions) for hotels is an important component in decision-making. The extra restaurant space should be for creating a destination.

In terms of concept, the result is diverse based more on personal choice rather than on trends. “RP6” VP F&B Global, “RP2” F&B Director, “RP8” Director of Quality and “RP10” Area GM for Accor in the Philippines mentioned that a whole new concept should be considered, and it has to be closer to the reality of the market (e.g. coffee shop price is comparable to Starbucks) such as an interactive space during the day to break the image of an all-day dining catering to breakfast, being multipurpose and offering multiple venues. In terms of concept, only “RP5” F&B Director mentioned top fine-dining cuisine and celebrity chefs. Nevertheless, most of the respondents focused more on a lifestyle concept anti “fine dining” or even “fun dining”, which mocks the term “fine dining”. A specialty restaurant can also be considered, and co-branding can be done to spice up the offer.
As mentioned in the previous literature, hotel restaurants are perceived negatively, and hotel guests would rather go out to eat (Barrows & Giannakopoulos, 2006). They are also seen to be overpriced and boring (Stafford, 2011).

Hotels also have multiple outlets and GMs need to ensure that they provide a variety of dining experiences to guests, especially in luxury hotels where a repetition of cuisines and redundancy of dining experiences is unacceptable (Hanson, 1984). Not to mention, hotel restaurants are also usually bigger in size than free-standing restaurants but are only fully occupied in peak periods, which makes managing an empty restaurant costly and creates bad PR (Hanson, 1984). As a solution to the unexciting and lifeless image of hotel restaurants, respondents of the study suggested that dining concepts in today’s hotels need to be fresh, new and fun as F&B highly affects guest satisfaction.

5.3 Weaknesses and Strengths of Free-Standing Restaurants (from Hoteliers’ View)

Every business model is subject to praise and also has some space for improvement. The panel mostly sees free-standing restaurants as having more strengths than weaknesses. An analysis based on the feedback was undertaken:

Weaknesses:
- High fixed cost from the space rental (quoted by 60% of respondents)
- Investment
- Limited resources such as marketing and global brands exposure
- Difficulty to recruit or to retain staff
- Most of them do not think of offering banquets or private rooms
- New means trendy, or it can be perceived as not established
- Trends also come to an end, which often comes before the desired ROI
- Compliance with local requirements
- Lack of structure

Strengths:
- Run by real entrepreneurs, business savvy, ROI focused, high staff incentive
- More creative, more targeted and aggressive marketing efforts
- Business model is more flexible and leaner, low decision process, immediate decision and action by manager (no approval process), faster communication
- Less restrictions (hygiene, union in some cases)
- Do not hesitate to contact experts such as designers, lighting consultants, music experts, etc.

Surprisingly, hotel experts, when asked to describe the strengths and weaknesses of a freestanding mindset, have a lot of enthusiasm on the topic. The general thinking should be to protect their own business models but as mentioned by “RP12” Area General Manager South Vietnam, the operators need a change, and they are ready for it. It seems that the current business model for running the F&B department is obsolete, and a drastic evolution is needed to achieve the competitiveness of a free-standing restaurant. One non-negligible strength is that restaurant owners realise that knowledge of operations and knowledge related to design are two different things. The only weakness that can affect a free-standing business is the lack of financial resources in general and especially during crisis situations. In addition, a good point, which was highlighted, is that moving outside convention means moving with a trend, which has a lifespan.

5.4 Current Snapshot of the Profitability of the Hotel F&B Space vs the Rental Opportunity

Most hoteliers are realists and believe in a competitive F&B. As a whole, the result is positive, but as mentioned by “RP3” EAM Intercontinental Hong Kong and “RP6” VP F&B Global, the results of the P&L (Profit and Loss) are biased, as the success of any operation should be measured on business from rooms (Banquet + Breakfast). Barrows and Giannakopoulos (2006) pointed out that due to this traditional manner of combining F&B profits with that of the hotel’s overall financial statements, managers overlook the true potential of F&B. “RP9” Hotel Owner realised that some of his outlets were not competitive versus the local rental market opportunities, but those outlets created a certain value with respect to the brand awareness of the hotel.

“RP12” Area GM South Vietnam mentioned that other spaces in the hotel do not make a profit, and these could be turned over. As an example, the pool should be seen as a revenue opportunity. The famous pool parties of the Sofitel Bangkok being the greatest example. In the past, as a response to increased market competition, hotels have realised that all hotel departments must become profit centres, and a strategy is to lease out unused spaces to create profit (Bolat & Yilmaz, 2009). In most cases, the reality is that it is less financially risky to lease the space and much less trouble. Actually, there is also a reason beyond a rational financial move, as a leasing-out strategy can also contribute to branding.
5.5 Major Reasons Why Hoteliers Still Operate Their Restaurants

Most of the answers showed a certain willingness to protect image, control the guest experience, and safeguard the brand, as there are risks involved in contracting a third party. It is also perceived that by having a third party operate the restaurant, the hotel is on the brink of failure (closing a restaurant for rental). The reluctance to lease a non-productive hotel space also has an impact on the ego of the GM. In the meantime, a pure human factor should be taken into consideration, as it involves two different parties (lessee/tenant and lessor) with different expectations from the relationship. If the hotel (lessor) and the third party (lessee/tenant) that rents the space have different opinions or have less profit than expected, this can create a vicious relationship that can lead to legal issues.

Another issue raised stems from the management contract agreement between the hotel operator and the hotel owner. The arrangement often does not give the owner the flexibility to outsource any outlets, no matter if it is successful or not. The profit from leasing a space goes straight to the owner’s pocket whereas revenues from operations need to have a certain percentage that can be redistributed to the hotel brand.

5.6 Co-branding Being Perceived Well as a New Way of Operating Businesses

The interviewees recognised that an alliance between the brand capital of a hotel and a restaurant is a good way to strengthen awareness of the hotel in consumers’ minds. A real win-win scenario is often a result of this, provided the hotel choose the right partner. Brand compatibility is indeed important to ensure that both brands enhance the brand capital and profile of each party (Hemmington & King, 2000; Espino-Rodriguez, 2004).

“RP1” F&B Director of Dorchester mentioned that in terms of profitability and image, his hotel is one of the best in Europe that uses a co-branding strategy, with Ducasse being one of the partners and Tang, the famous Hong Kong designer and founder of Shanghai Tang, being the second one. As a matter of confidentiality, no figures were disclosed, but both of the collaborations have been beneficial for both hotel and restaurant operators with regard to image and profitability.

Co-branding is also an opportunity to bring a certain knowledge to an area in which the hoteliers are not good. This strategy allows the hotel to benefit from the experience of the third party and likewise increase customer traffic to the hotel because of the branding (Espino-Rodriguez, 2004; Guillet & Tasci, 2012). Some types of cuisines or brands were highlighted by the respondents, such as specific food to get authentic tastes and experiences (e.g. Indian, Chinese), and some mono products or lifestyle brands such as Starbucks were quoted by four respondents. Also, co-branding can create a certain buzz or a strong image by using fashion brands such as Hugo Boss, Armani or specific brands such as Rip Curl for a pool bar.

On the other hand, Lamminmaki (2015) argued that some hotels are unwilling to collaborate with a third party, as risks are involved when the third party does not deliver as initially agreed. As expressed by “RP4” Hotel Manager, there is some reluctance to relinquish control, and the respondent reminded the interviewer that it is also part of the agreement and core competencies for hotel chains to make the F&B business profitable in the luxury setting. The literature has suggested that hotels engage in outsourcing strategies to focus on their core competency, which is to provide rooms for guests (Lam & Han, 2005) and thereby outsource their F&B. However, the respondent expressed that as a hotel chain, F&B is a core competency and so reluctance to have the service contracted out is present. As argued by Barrows and Giannakopoulos (2006), what constitutes the hotel’s core competency depends on the individual hotels and their respective strategies. It is not a question of whether F&B is a hotel’s competency, but it depends on the hotel owners.

6.0 Implications and Contribution to Knowledge

Today, more than ever, the hospitality and tourism industry is facing increased competition brought about by internationalisation, globalisation, changes in market trends and consumer preferences. With advancements in technology, consumers are also now seen to be smart travellers since access to information is just a click away. In effect, an organisation is now more susceptible to its competitors because potential consumers can easily make buying decisions based on customer reviews on the Internet. In the hotel industry, hotel restaurants are seen to be losing against free-standing restaurants. This study aims to investigate the threats and opportunities of hotel restaurant collaboration as a response to competition between a hotel restaurant and a free-standing restaurant. To achieve this aim, the study first examined the strengths and weaknesses of both business models to recognise the factors that affect the performance of hotel restaurants. Figure 1 illustrates the factors that make hotel restaurants lack attractiveness and be less competitive than free-standing restaurants.
In summary, hotel restaurants are not that competitive because guests often perceive them as being boring and bland. More than that, hoteliers lack the entrepreneurial spirit that free-standing restaurateurs have—aggressive PR and marketing, attention to details and foresight. The business model of hotel F&B is thus primordial, concentrating on short-term profitability and a mindset that hotel guests will just come if they want to. Given that hoteliers have limited knowledge and expertise in F&B management, as it is not the same as hotel management, it would be beneficial for hotels to consider outsourcing their F&B through co-branding, franchising and leasing out space. This study found that most managers have an optimistic view towards getting an F&B specialist to operate the hotel restaurant to enhance guest satisfaction. On the other hand, in as much as these hotel restaurants’ collaboration strategies can improve the hotel brand, enhance operations and create PR, some hoteliers are reluctant to relinquish control and take a risk that a third party may not consistently meet hotel standards.

Thus, hotel F&B needs to innovate and reconsider its traditional mindset to achieve competitiveness against free-standing restaurants. Figure 2 illustrates the recommendations from a strategic point of view for hoteliers to enhance their mindset and increase F&B performance.

Nowadays, hoteliers need to recognise that market trends are changing, and consumers are getting smarter and more demanding. With the rise of the spending power of Generation Y, traditional cookie-cutter solutions have lost their value. As expressed by one of the respondents, hotels need to “innovate or die”. Hotels need to develop new and exciting restaurant concepts that create fresh and unique dining experiences versus a boring and sometimes intimidating hotel restaurant atmosphere. They can learn from their free-standing counterparts and replicate the creativity that free-standing restaurants have. Hoteliers should also realise that several empty F&B outlets in the hotel is more costly and creates a bad image. They should focus only on a few restaurants but ones which are packed with diners. In addition, hotel spaces that do not bring in revenue can be re-created to become a profitable space and all-day dining can be maximised and converted to become more interesting spaces throughout the day, such as turning a breakfast counter into a coffee bar. Events and banquets should also be given attention, as they bring in more people and create a positive image of the hotel. Overall, gone are the days that hotel F&B could just wait for customers to come in; instead, new concepts and dining experiences that attract hotel guests and the local market should be created.

The hotel restaurants of today should reposition themselves not just as a service that comes with the accommodation but as a destination in themselves that can create and enhance dining experiences of both non-hotel and hotel guests, thereby making F&B one of hotels’ competitive advantages. Aside from the managerial implications, this study also contributes to previous knowledge as most studies in outsourcing in hotel management analyse the reasons and risks involved with outsourcing (Gonzales et al., 2011), while this study
adopts an exploratory approach by first examining the attractiveness of free-standing vs hotel restaurants to investigate the threats and opportunities of outsourcing in an Asian hospitality context. However, this study is not without its limitations. Although the respondents’ profiles show their competence as decision makers in their respective hotels, the panel of experts was mostly from the same global multinational brand (Accor). In addition, despite all respondents except one having work experiences in Asia, the area of research is still geographically wide, notwithstanding finding common results. For future research, more data can be gathered from a specific geographical area. A study from the perspective of customers or from the point of view of pure restaurateurs who are the outsourcing providers should also be conducted.

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