

## **Are European hotel restaurants problematic or instrumental in creating value?**

In Western Europe the majority of the hoteliers and other stakeholders involved with them agree that hotel restaurants are a liability because of the very low profit margins and the difficulty of making a return on investment. This is without even mentioning all the operational problems inherent to this type of activity. It is true that in Europe hotel restaurants are subject to the same constraints as other restaurants which most resemble the Lernean Hydra. Each independent hotel, or hotel chain, tries to find its own solutions. For this reason numerous consultants offer innovative solutions, which are more or less ephemeral, and which generally concern the concepts' design and atmosphere; elements which cannot provide any more a competitive edge and which have become indispensable. North American hotel restaurants show the same issue. The solutions provided by US hotel chains, such as sub-contracting to national restaurant chains or creating their own restaurant brands, are only partially applicable in Europe due to the differences in market structure and the cultural diversity of customers in European hotel restaurants.

The goal of this article is not to propose specific innovative hotel restaurant concepts, each one being more extreme than the last, but rather to stimulate hotel stakeholders to analyse their own situation and reflect on their individual objectives for opening a restaurant in their hotel or continuing to operate a restaurant in their hotel but with needed modifications for their main targets. It is only then that they will be competent to evaluate their strategic choices and decide on an appropriate approach to creating value for the customers and for the company.

The first part of this article deals with the identification and analysis of strategic solutions applied by a large European hotel chain. The second part provides a short comparison with North American hotel chains with restaurants, followed by a table including a practical framework that links hotel's objectives to effective strategies that could be implemented in order to achieve the goals and create value for both the customer and the hotel along with types of measurement as well as examples.

Accor was chosen to be the hospitality chain studied in this article along with its principal hotel brands for the following reasons. Firstly, Accor is the owner and/or operator of 2'280 hotels in Europe. Half of its hotels are under management contract, one quarter are subsidiaries or leases and one quarter are franchises. Secondly, Accor owns, operates, or franchises different hotel brands around the world. Thirdly the group hotel brands cover almost all of the different market segments in the hospitality industry from the minimum budget category to the ultra luxury. Therefore, Accor has become a master in making appropriate strategic choices concerning the restaurants in their numerous and diverse hotel brand portfolio.

**Accor, The European leader (www.accor.com)**

- **Turnover 2008 : 7,739 million Euros**
- **3,982 hotels / 478,975 rooms**
- **Room distribution: 25% Europe (outside France), 27% France, 22% North America, 6% Latin America, 5% Africa and the Middle East, 15% Asia-Pacific.**
- **Net earnings: 575 million Euros**
- **Workforce 2008 : 158,162 staff members in nearly 100 countries**

To give them their due, **Sofitel, Sofitel Legend** and **So by Sofitel** defend « made in France » luxury in their 172 hotels in 53 countries. Their business mix is mostly aimed towards a business clientele as it accounts for 65% of their business. For Accor, the location of these hotels is essential which explains why they always choose important cities with prestigious addresses; for example, next to the Arch of Triumph in Paris. Furthermore, they choose exceptional and legendary buildings for the Sofitel Legend Hotels (the Grand in Amsterdam, in the Netherlands). They also emphasise style and design for the So by Sofitel Hotels such as with the first So by Sofitel in Paris which replaced the Sofitel Arch of Triumph. This was followed by the So Berlin which replaces the Sofitel Am Gendarmenmarkt).

Sofitel Hotels highlight « extreme refinement». Yann Caillère<sup>1</sup> expresses this clearly in just a few words: «France is renowned worldwide for its position as the leader in the luxury sector and for its Art of Receiving. Our expertise and our unique traditions differentiate us from other international luxury providers. ». Clients may take advantage of the « Haute Gastronomie » restaurant, often in partnership with renowned chefs who have Michelin stars. Accor means having the *highest rank chefs*, pastry chefs and sommeliers in the world. These gastronomically oriented hotels offer a « HAUTE CUISINE » package: a lodging in extraordinary surroundings, and an « art de vivre à la française ». This includes a extensively varied breakfast, a memorable dinner for two in the hotel's elegant restaurant as well as gifts of local gastronomy products and typical beverages along with a regional recipe book signed by some of the greatest chefs today.

It is obvious that Sofitel brands see their restaurants as one of the components that is essential to their **image of excellence** and French savoir-faire. For this reason, Sofitel apply **strategies of Singularity and uniqueness as well as partnerships** with world-renowned culinary stars, to create distinguished value for the guests as well as long term profitability for the hotel.

The **Pullman** hotel brand, « tailor-made for business travellers»<sup>2</sup>, offers a service designed to meet corporate needs whether travelling individually or in a group. Three keywords describe the Pullman product: « congeniality, serenity and connectivity » or to sum it up: « Get Closer ». These Pullman attributes can be found in the three pillars of their foodservice which is created specifically for Pullman:

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<sup>1</sup> Yann Caillère, CEO Sofitel and Member of Accor's Executive Committee

<sup>2</sup> <http://www.pullmanhotels.com/fr/discovering-pullman-hotel/food-and-beverage.shtml>



- *Flexibility* offering a kitchen applying a impeccably-prepared contemporary fusion and service that can be enjoyed any time of day, thereby adapting completely to the guests' individual rhythms (take-out breakfast, express service, room service 24 hours a day).
- *Congeniality* with an expert and attentive staff but also with a "table d'hôte" to oversee perfected service.
- *Proximity* with the transparent open kitchen, wine cellar and the personal carving and serving of certain

meat and fish and other dishes in front of guests.



Pullman's objectives are linked to **efficiency** and **profitability**, demonstrating to their main target, business people, the brand's capacity to **create a comprehensive offer** which will fulfil the brand promise stated in their slogan: "Check-in, Chill-out". The strategy chosen by Pullman is implemented through the creation of its **own innovative but standardised restaurant concept** in keeping with Pullman's values: "congeniality, serenity, connectivity". The implementation of a creative culinary offer (table d'hôte, innovative breaks, innovative human resources management) satisfies their clients' needs for proximity to their personal and professional environment as well as to the people around them. The objective of this strategy is customer satisfaction and customer loyalty as well as to obtain profit through the customized foodservice.

**MGallery** (Mercure Gallery), "a collection of exceptional hotels"<sup>3</sup>, brings together upscale hotels that are out of the ordinary due to their historical heritage, the concept, signature decor and their exceptional locations. But above all, it is their « spirit », that provides a guest experience that is authentic and unique. The foodservice in these hotels is individualised and specific to each hotel property

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<sup>3</sup> (<http://www.mercure.com/fr/discovering-mercure-hotel/new-hotels/gallery-hotel.shtml>)

based on the values of "sharing" and special moments of pleasure such as, an exclusive piano concert followed by a wine-tasting of an rare local wine.

Hotel Century Old Town McGallery Prague (<http://www.mercure.com/fr/discovering-mercure-hotel/new-hotels/gallery-hotel.shtml>)



For McGallery, just as for Sofitel, the foodservice actively participates is primordial in creating an *image* of individuality and intriguing for each of the brand's properties. For this reason each hotel offers a *specific concept* in the quest for authenticity and harmony with «the spirit of the house». Value creation comes from the guests' satisfaction with the engaging culinary experience resulting in superior performance by the McGallery brand.

**Novotel**, with its resolutely modern hotels, appeals mostly to business people by providing a friendly environment offering innovative contemporary spaces and exceptionally efficient service. Novotel would like to be the new champion of sustainable development with their "natural living" concept. For Novotel, foodservice concepts are developed by the different country locations, respecting local culinary habits. Examples are "Novotel Café" in France and Italy, "Elements" in Great Britain, "Food Square" in Belgium, "Claravia" in Spain, "Trio" in Canada or "The Square" in Asia. The common quality standards of the Novotel foodservice brand include product freshness and seasonality, authenticity and simple local cuisine.

Hotel Novotel Cardiff centre (<http://www.novotel.com/fr/home/index.shtml>)



For Novotel, a consistent standardized chain, the foodservice must meet the objectives of *efficiency* and *profitability*. Since each country develops its *own*



**local foodservice concepts** according to the brand's standards and values as well as the local cultural differences. The value creation results in profit for the company, all the while ensuring constant value for its clients customers.

Situated in a mid-range category, Accor presents its **Mercure Hotels** as members of one family who share common values of comfort and a warm, quality reception.



Mercure restaurants show their regional roots with recipes using local products. However part of the menu remains classical for all the Mercure restaurants. The congeniality theme in their restaurants is built on wines listed as Grands Vins Mercure (in 15

countries) which has become a strong symbol of the local roots of the brand. "Tasses & Arômes" a selection of teas and coffees associated with travelling, discovering other cultures, enriches the unforgettable moments of pleasure provided by Mercure in France, Hungary, the United Kingdom, Australia and throughout Asia. (<http://www.mercure.com/fr/home/index.shtml>).

The objectives that have led to these strategic choices of partial **standardisation** of the foodservice, while giving the impression of belonging to local culture, arise from a need to provide **a complete offer** in accordance with the concept of exceptional hospitality while maintaining value for the customer, remaining **efficient** and attaining good **results**.

In Europe the economy sector is dominated by **Ibis** whose slogan "Experience an affordable passion for service 24 hours a day" clearly announces their intentions. Ibis hotels are easily accessible, and they provide comfortable rooms, 24 hours a day reception services as well as a friendly bar. As regards to the foodservice, Ibis takes its vocation seriously as it is possible to obtain a snack, at any hour of the day or night, either at the bar or the reception. Ibis has created some 20 brands of different hotel restaurants to give their clients the impression that they are changing their gustatory experiences when changing Ibis hotels. The reason for creating such diversity is to counterbalance the somewhat monotone and standardised lodging experience, as the hotels and rooms are all very similar. An Ibis restaurant provides an excellent quality/price ratio, freshness and simplicity. Each brand proclaims its differences with novel atmospheres: for example "L'Estaminet", "Sud & Cie" or a "Café Pasta & Cie", but also through a flexible selection of menu items to suit the tastes of clients. Some examples are "it's all about Taste", "Open pasta et grill" and "Wok and Co". Finally, depending on the hotel's location, having a well-known brand appears important as in some Ibis restaurants run by "Courtepaille" or "La Taverne de Maître Kanter".

Restaurant Ibis « Sud et Cie » (<http://www.ibishotel.com/fr/discovering-ibis-hotel/restaurant/index.shtml> )



The **relationship between service/quality/price** has an economical influence on the foodservice goals of a company like Ibis and a **standardisation strategy** is essential. For this reason, although Ibis gives the impression of providing an impressive choice in its foodservice concepts, it is a standardisation strategy used throughout the entire Ibis brand chain. On careful observation of the menus of some 20 brands to be found at Ibis, it becomes apparent that they are made up of practically the same food products prepared and just presented in different ways (beef or chicken kebabs, steak, chicken, duck, lamb, suckling pork, salmon, bream, squid, pasta, etc ). This strategy generates economies of scale in purchasing, logistics and stock management which contributes to profitability all while providing customers with an excellent quality/price ratio.

**Etap Hotel**<sup>4</sup>, the limited services budget standardised brand of Accor, differentiates itself from the highly standardised **Formule 1**<sup>5</sup> (Hotel F1 in France) which is the main reference in low end budget hotels. Etap offers more comfortable lodging as the bathroom is located in the guest room. Rooms can accommodate one, two or three people, like Formule 1. The foodservice is limited to breakfast in both these hotel brands. Formule 1 clients have special offers for dining in other Ibis restaurants and at Courtepaille. At some Formule 1 hotels, there are cooked meals and desserts available 24/7 in partnership with Fleury Michon. At an Etap Hotel, in addition to vending machines with 24 hour service to supply food, their clients receive a 15% discount in all Courtepaille restaurants and Ibis restaurants which are close to an Etap property.



Accor's foodservice approach in these two brands clearly shows that their objectives are aimed at **maximum profitability** of these establishments where the choice of limiting the foodservice offer to vending machines or outsourcing to other restaurants bears witness to exemplifies a strategy of **total standardisation** from delivery through to presentation.

In fact the difficulties encountered by hotels in Europe in reaching a reasonable rate of return on their hotel restaurants are identical to those in the United States, as confirmed by numerous experts from various chains (Special report H&MM, September 2007). A study of American travellers undertaken in the USA (Dunn & Cudebec, Ypartnership, 2007) showed that a celebrity chef is only a criterion in their choice of a hotel for 11% of people with a revenue of over \$75K per annum. This is probably the reason that the IHG group only publishes information in Europe about the chefs in its hotel restaurants. However, it would appear that in high-end and luxury hotels there is a mounting interest in a foodservice based on freshness, savoir-faire, transparency, balance and flexibility which is inciting North American hotel groups to reposition their restaurants. Sufficient proof can be found in the new orientation of the Chicago Marriott Downtown Magnificent Miles that advertises the freshness and « home-made » qualities of the meals in their restaurants.

Another example is the creation of a hotel house brand or an affiliation with a local restaurant brand that allows hotels to differentiate themselves from their competition through unusual culinary experiences. The Holiday Inn in Alexandria (Minn., USA) has formed a partnership with a small restaurant chain in Minneapolis called Rudy's Redeye Grill.

For their medium-range hotels, North American groups often have easy access to partnerships with national restaurant brands. Ramada Hotels, for example partners with Bennigan's, Hooters and Chicago Pizza or just local outsourcing.

It is therefore clear that the perceived burden on profits of hotel restaurants foodservice is beginning to change and actually contributing to revenue creation for each unit, especially in these difficult times. At the luxury level, the image value created by the association of the restaurant with the hotel brand, even if this does not determine the choice of lodging amongst the majority of guests, actively promotes and strengthens the hotel brand. For the upscale and mid-market levels, coherence between the foodservice and the global offer by the hotel brand is also an element of value creation for the company through cost reduction of appropriate outsourcing and customer satisfaction as well as brand loyalty. In regards to the finances, it is concluded that standardisation of the (in-house, propriety, etc) restaurant services provided that still offer culinary diversity for the guests, can contribute to the hotels' profitability through economies of scale in procurement and training. Furthermore, there are advantages for all categories of hotels in partnerships including affiliation with outside restaurants.

An interview with Gebhard Rainer, Managing Director of Hyatt International Europe-Africa-Middle East (Food Service Europe, Edition 2/2009) confirmed the

importance of foodservice in luxury hotels, especially during this rather fragile period. He explained that the local restaurant clientele has allowed them to compensate for the momentary lack of hotel corporate guest activities such as conferences and banquets. Hyatt, due to its executives' strong support of F&B, has always taken foodservice seriously into account. The international hotel group understood long ago the desire for culinary traditional cuisine by the local clientele, especially in Europe. Hyatt's objectives are clearly linked to their renowned brand image and to the creation of a global offer. It is due to their excellent integration of their F&B into their lodging product that Hyatt has been able to build the strong brand awareness that they have worldwide. Hyatt's strategy of singular foodservices which are also created in relation to the local market, is interesting and differs from Accor's Sofitel Hotels. In Hyatt's quest for recognition of excellence (Michelin stars) is achieved by hiring their own outstanding chefs. Furthermore, when the local market demands an ethnic restaurant, authenticity becomes a priority of Hyatt.

It is clear that the characteristics of the hotel have an influence on the available resources (type and size) for the implementation of appropriate restaurant strategies, which are translated into concrete facts. For example, the creation of a gastronomic restaurant with the signature of a 3\* Michelin chef in an independent luxury hotel in Lausanne that has 169 rooms, with a clientele who come not only for business but for pleasure (Beau Rivage Palace, Lausanne, Switzerland) would be a singular and uniqueness strategy. The hotel restaurant strategies depend on the type of organisation (whether part of a chain or independent), locality (size of the local population, type of city), seasonality (a smooth demand curve or with seasonal peaks), the hotel category (economy to luxury), the size (less than 50 rooms, 50 to 100 rooms, more than 100 rooms) and, finally, the target market (business to leisure). However the characteristics of the hotel should not influence the strategic F&B choices themselves as these should be dependent on the types of objectives and the management's vision of the future. Appropriate F&B strategies can be grouped into three broad categories:

- Mass customization or replicated differentiation (creation of the hotel's own brand providing products and services that are standardised all the way to vending machines);
- Partnership or association membership (with foodservice known brands or the creation of their own brand with centralized purchasing or at least the same menus, shared support activities such as marketing and logistics providing economies of scale);
- Singular or Blue Ocean Strategy(Kim & Mauborgne,2005)<sup>6</sup> (extraordinary elements that indicate that it is very distinctive, such as exceptional design, a well-known architect, a chef with Michelin stars, a famous name, etc ...)

A synoptic framework table follows, linking the types of hotel objectives to appropriate restaurant strategies and then to the value created, all which should

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<sup>6</sup> Kim, W. C. et Mauborgne, R., "Blue Ocean Strategy: From Theory to practice", *California Management Review*, vol. 47, n° 3, 2005, p. 105-121.



assure effective decision-making concerning the development of the hotel's restaurants. Furthermore, types of restaurant value creation measurements are provided which should reflect the vision of the entire company and not just the financial results of the restaurant.

Synoptic framework linking the objectives, appropriate strategies and value creation from the restaurant

Objectives	Appropriate Strategies	Value created	Measurement Indicators	Examples
Linked to the image	Singularity and Uniqueness	For the client	Level of hotel satisfaction Level of customer loyalty to the hotel Degree of brand awareness of the restaurant brand Degree of brand awareness of the hotel brand	Relais Bernard Loiseau in Saulieu
		For the company	Increased hotel Occupancy rate Changes to the communications budget	
	Partnership (with a known brand)	For the client	Level of hotel satisfaction Level of customer loyalty to the hotel Degree of brand awareness of the hotel brand	Alain Ducasse at the Plaza Athénée
		For the company	Increased hotel Occupancy rate Changes to the communications budget	
Financial	Partnership (economies of scale)	For the client	Level of restaurant satisfaction	Fleury Michon meals in Formule 1 hotels
		For the company	Financial results of the restaurant	
	Mass customization with partial to total standardisation	For the client	Level of restaurant satisfaction	Vending machines in Easyhotel hotels
		For the company	Financial results of the restaurant	
Harmonise with the total hotel offer and financial goals	Singularity and Uniqueness	For the client	Level of customer loyalty to the hotel Degree of brand awareness of the hotel brand	Park Hyatt Zurich
		For the company	Financial results of the restaurant Increased hotel Occupancy rate Changes to the communications budget	
	Partnership (with a known brand or chef)	For the client	Level of customer loyalty to the hotel Degree of brand awareness of the hotel brand	Nhube in certain hotels Nhotels in partnership with Ferran Adria
		For the company	Financial results of the restaurant Increased hotel Occupancy rate Changes to the communications budget	
	Mass customization or replicated differentiation with partial standardisation	For the client	Level of customer loyalty to the hotel Degree of brand awareness of the hotel brand	Aloft
		For the company	Financial results of the restaurant Increased hotel Occupancy rate Changes to the communications budget	