



Horwath HTL™

Hotel, Tourism and Leisure

INDUSTRY REPORT

Asia Pacific:
*Quality F&B is
back on the table*

MAY 2018

Quality F&B Is Back On the Table

The best time to invest in quality F&B was five years ago - the second best time is today.

A Case For Quality F&B

There was a time when many of a city’s best restaurants were in hotels, but in most modern metropolises today, the independent restaurant and bar scene puts hotel outlets to shame. Operators struggle to compete with vibrant, inspired local concepts, and owners are increasingly discouraged by F&B as a business proposition.

But, this does not mean we can or should give up on quality hotel F&B. As an industry, we cannot simply shrug our shoulders and say *“Well, independents do it better. Why should we bother?”*

F&B revenues still represent a significant portion of total revenue in top tier hotels across key markets in APAC. The financial and experiential impact of F&B cannot be ignored.

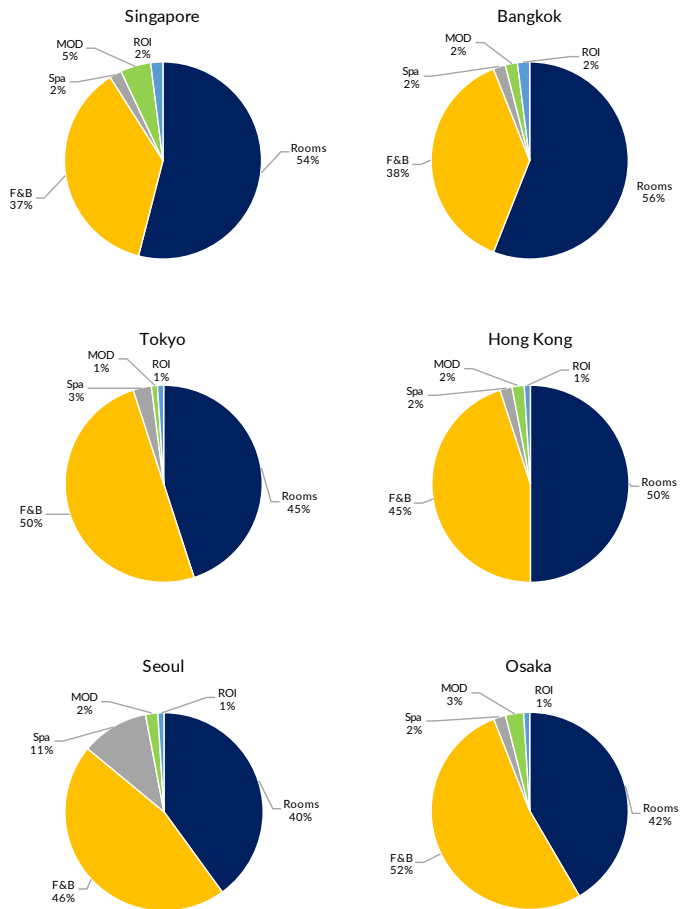
According to Horwath HTL, top tier properties in Tokyo collected an average of 50 percent of total revenue from F&B, in 2016.

F&B in similar hotels over the same period in Singapore, Bangkok, Seoul, Osaka and Hong Kong contributed 39 percent, 38 percent, 47 percent, 53 percent and 45 percent of total revenue, respectively. These markets all have competitive, local F&B scenes, but the restaurants and bars in many of these hotels were able to rise to the challenge, shining examples of what modern, thoughtful and well-executed hotel outlets can be.

Although banqueting is key component of F&B revenue in hotels across APAC, outlet revenue is the majority contributor in all of the following examples.

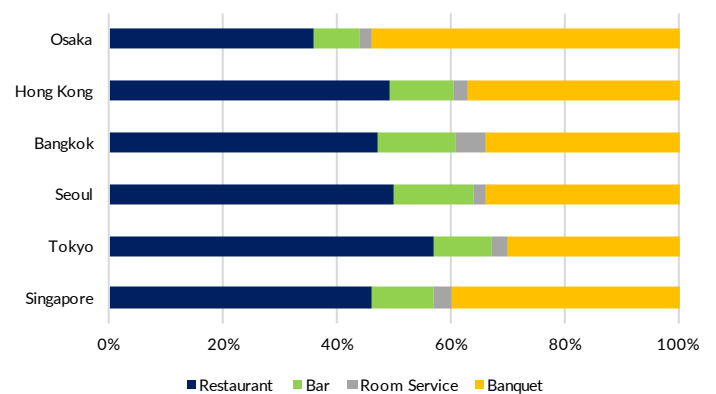
Location, branding and market all play an important role in determining which properties have the most potential for maximizing F&B. The ideal hotels for investment in quality offerings are those in the upper-upscale or luxury segments, in prime or trendy locations or in metropolitan, international destinations with strong potential for local capture. Unfortunately, the question of successful F&B is harder to answer - and probably revolves around efficiency and value engineering - when we talk about a mid-tier property on a sub-prime site in a second or third tier city.

Revenue Breakdown by City



Source: Horwath HTL

F&B Revenue Mix by City



Source: Horwath HTL



Manhattan Bar, The Regent, Singapore

Outsourcing

Outsourcing is one, simple solution thrown about a lot. Except it's not so simple. By outsourcing your F&B operations, you are sacrificing a large portion of F&B revenue for rental revenue.

Across APAC, F&B revenues in top tier hotels can account for between 30 percent and 50 percent of total revenue while net Rental and Other Income (ROI) represents less than five percent. Even at an F&B department profit margin of 25 percent to 35 percent, F&B revenue is still a bigger contributor to the bottom line.

By leasing your space, you are exposed to the risk of vacancy and a fluctuating rental market, putting even more pressure on ROI revenue. Unless your property has a prime location or reputation, these risks could become especially prevalent. Even if the property has a great space to rent, inexperienced tenants could leave an owner with high turnover rates or extended periods of vacancy.

Owners and operators are also sacrificing control over the guest experience by outsourcing F&B. Especially in upper-upscale and luxury hotels, this is a risky situation and many brands are unlikely to allow it. Top-tier brand standards generally dictate multiple F&B outlets; by outsourcing, the hotel also loses economies of scale with executive positions, support staff and purchasing volume, further impacting F&B profitability.

Engaging The Right Help

The key to competitive, successful F&B in hotels today is engaging the right experts.

The answer is not to push the responsibility of operation to someone else or cut F&B out of the P&L as much as possible. It's to put the right effort into developing a concept that is modern, relevant, smart and targeted. Naturally, hotel operators struggle to turn a profit on a generic or dated restaurant concept, when guests and locals are presented with a plethora of other options in a destination. But, hotel management companies often lack the resources and special expertise to develop creative, quality outlets in each hotel they manage.

An experienced F&B consulting team should be engaged from day one, to develop everything from the concept and menu to the table-top, uniforms and guest experience. Especially for a new-build, this team should be engaged early on, to help plan the most efficient, purpose-built outlet. This way, the hotel operator can be left to do what they do best, operate. Success stories from this model have been waking brands and owners up to its potential. Manhattan Bar in The Regent Singapore is a perfect example: conceived and executed by beverage consultants, entirely operated by the hotel and named best bar in Asia on the 2017 50 Best Bars list.

Across APAC, opportunities for iconic restaurants and bars are sitting untapped. Quality F&B can drive hotel revenues, contribute significantly to the bottom line, improve the hotel's reputation, develop a local community and keep guests coming back.

However, most hotel brands fall short of capitalizing on these opportunities with current, engaging, thoughtful concepts and designs. They simply aren't able to develop and execute F&B that can genuinely compete with dynamic local restaurant scenes.

Reaping the Benefits

For many people who are exposed to the hospitality industry through P&Ls, the recurring question is "If rooms are so much more profitable than F&B, why should I spend any extra time or money on the restaurants and bars?" It's true; margins for F&B will never be the same as rooms. So, let's stop comparing them that way.

By investing in a hotel's F&B properly and early, the operator will start out with the right tools to drive revenue, improve profitability and reap the rewards of a host of intangible benefits. Too many operations teams take the heat for an under-performing outlet, when in reality the generic, uninspired concept they were handed to manage was never set up to compete with a vibrant local scene. However, a compelling, competitive restaurant will naturally drive the top line.

To illustrate, comparison can be made between some of the most competitive hotel bars in Singapore against their generic competitors. The top-performing competitive set includes Manhattan Bar (Regent Hotel), Anti:dote (Fairmont) and The Other Room (Marriott Tang Plaza), all of which had external consultants develop the concept and/or design. Comparing their performance against the overall average of hotel bars in properties of similar positioning in Singapore reveals the average check for the top performers is 44 percent higher (SGD 48.20 versus 33.46) and utilization is 139 percent higher (2.12 daily guests per seat versus 0.89).

In addition to driving revenues, a well-executed outlet will also operate more profitably. Fixed costs and labour costs will be spread over more covers. Time and money spent on marketing and special offers will decrease, while quality staff will be easier to attract and retain. The hotel overall also stands to benefit from quality F&B. A successful restaurant or bar can help to create a genuine community of locals and repeat guests. It also reflects positively on the

hotel's other F&B offerings, such as banqueting, which can contribute a significant portion of total F&B revenue in an Asian hotel. Positive reputation and online presence generated by F&B can also have a halo effect on the hotel's rooms and event sales.

A creative approach to an outlet can also maximize its revenue generating potential and improve staffing and space planning efficiency.



Publico Ristorante & Deli, InterContinental, Singapore

Take Publico Ristorante and Deli in the new InterContinental Singapore Robertson Quay as an example. It's another outlet in a prime location, under a luxury brand, designed by F&B Specialists. Throughout the day, it hits all three meal periods, but at night, the Deli becomes the craft cocktail bar Marcello. In doing so, the space effectively extends its revenue generating hours and capitalizes on the hotel's lively, riverside location.

In the end, not every project is the right one for a remarkable restaurant or destination bar. But, winning the F&B game at any price point takes expertise, creativity and effort. It cannot be done with a cookie cutter, as seen time and time again.

Hotel brands and owners need to start engaging the right talent to set themselves up for long-term success with concepts and spaces that are creative, competitive and smart.



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