

A New Flavour for Hotels

A priority of hotels worldwide is, quite naturally, attracting and catering to the needs of guests. Seldom do hotels invest heavily in strategies to cater to non-guests. However, according to the SHTM's Dr Sung Gyun Mun, Dr Linda Woo and a co-author, hotels' food and beverage (F&B) departments can bring in big money by attracting customers from local communities – not just tourists. With important implications for businesses in the post-COVID-19 era of tourism recovery, the authors suggest that hotels may be able to use their F&B offerings to reach new customers and create competitive advantages.

More than Just a Place to Sleep

Discovering a destination's unique culinary profile helps us to form a memorable connection with the local culture. "An exceptional gastronomic experience has a powerful impact on the overall image of a destination and tends to remain in tourists' memories for long periods", write the researchers. While hotels are already aware that quality dining and catering services can drive a certain degree of business success, the potential to use F&B to reach a brand-new crowd of customers remains relatively unexplored.

To maintain a competitive advantage, hotels must find original ways to reach prospective customers. "Diversification" involves creating new products or services and breaking through to untapped markets. Hotel diversification strategies have generally centred on rooms, the "core" resources of all hotels. For instance, providing rooms with different levels of quality and price

allows hotels to cater to guests with distinct needs and budgets. Another strategy is expanding a hotel chain to other locations, using the same room quality, to diversify internationally. "These types of diversification allow hotels to achieve economies of scale that reduce uncertainties and accelerate business growth", say the authors. Yet the focus on rooms means that target F&B customers are limited to in-house guests.

Hotel restaurants and bars are generally regarded as "supplementary" services; their potential as a significant diversification strategy has only recently started to pique interest. Unlike rooms, for which hotels must follow strict procedures, hotels' F&B offering is comparatively flexible and open to alterations in services and products. This means that hotels can stand out from the rest by offering more creative, more diverse and better-quality F&B services. "Hotel F&B should be regarded as a critical diversification strategy that can create competitive advantages", underline the researchers. In particular, adapting hotel F&B can broaden target customer groups to outside-hotel customers – guests of a hotel's restaurant or bar who are not actually staying at the hotel.

Targeting Outside-Hotel Customers

Revitalising hotel F&B services not only attracts more outside-hotel customers but has also been found to generate substantial revenues for hotels. This is welcome news, given reports of decreasing F&B revenue from minibars and in-room dining, which are only accessible to in-hotel guests. F&B

services that are accessible to outside-hotel customers, such as lounges and catering, are bringing in increasing revenue. "Catering and banquet services have become a major source of revenue", say the authors, "accounting for approximately 60% of F&B revenue at full-service hotel operations, such as luxury, upper-upscale, and upscale hotels". This means that targeting in-hotel guests is no longer sufficient to increase F&B revenue and overall hotel profitability.

Successfully appealing to new outside-hotel clientele through hotel F&B means offering something that local restaurants cannot, such as "exceptional food with experiential and hedonic value, personalised service, and premium physical environments", say the researchers. Also important is surpassing traditional hotel F&B staples in terms of quality and diversity, which can help to broaden the customer clientele. Several of the world's biggest hotel groups are already seeking to transform their F&B services to offer one-of-a-kind, holistic experiences to appeal to outside-hotel customers. Examples include Marriott's "Grab & Go" meals, AccorHotels' mission to open their F&B venues to both locals and travellers and many hotels' renovation of their dining spaces.

To attract locals and make a mark on the local culinary scene, hotels have also started to partner with local businesses. Engaging with the community in this way can "influence overall hotel brand reputation for the company's long-term profitability", say the authors. For example, outside-hotel guests who have a memorable dining experience might, for their next trip, decide to book with

that same hotel brand in foreign destinations. Despite the great potential of targeting outside-hotel customers, there is currently no way to measure the contribution of outside-hotel customers to F&B revenue. The researchers therefore developed a pioneering measurement strategy to estimate F&B revenue from outside-hotel customers, which could help to develop better strategies for hotel F&B.

Three Mathematical Models

Using a wealth of data collected over a decade, the researchers examined the relationship between F&B revenue from outside-hotel customers and overall hotel performance in 464 full-service luxury, upper-upscale and upscale hotels in the five most popular tourist destinations in the US. While accounting for variability in hotel occupancy, revenue and profit, the researchers calculated the F&B revenue from outside-hotel customers using a new measure that they customised for the purpose. Controlling for hotel location, age, size, number of rooms, state revenue and average monthly employment in their analysis, the researchers compared the outcomes of three distinct mathematical models and reached robust conclusions about the effects of hotel F&B services.

Investing in F&B Services

The major finding was that through F&B services, hotels can transcend their original roles and attract outside-hotel customers. In addition, attracting outside-hotel clients enhanced hotels' resource efficiency, known as "operating performance", most

notably in luxury hotels. "The findings represent the effectiveness of hotel F&B services as diversification strategies", explain the authors. F&B revenue had a greater positive effect on luxury hotels' performance than on the performance of upper-upscale and upscale hotels. This suggests that luxury hotels can benefit most from making innovative F&B plans to attract local customers. Hotels need not concern themselves too much with pricing strategies, given that lowering or increasing the price of F&B offerings had no significant effect on hotel revenue or profitability.

Another consistent finding was that F&B revenue from outside-hotel customers was positively associated with "operating profitability", which is the profit left after paying off all operating expenses. "This finding supports the importance of attracting outside-hotel customers to increase the hotel's overall operating profitability", explain the researchers. This could also buffer seasonal fluctuations in hotel revenue. Moreover, this diversification strategy and easier accessibility of hotel F&B services would be beneficial for locals. The authors also highlight that simply investing more money in F&B services is not a fool-proof way to spontaneously attract more outside-hotel customers; instead, decisive and innovative moves should be made to reach outside-hotel customers to reap the rewards of diversification.

Engaging with the Local Community

This work provides meaningful practical suggestions for hotels in the post-pandemic era of tourism recovery. Importantly, the work accentuates the value of more deeply embedding a hotel into its

local surroundings and creating strategic F&B offerings for outside-hotel customers. For instance, hotel F&B departments could engage with local communities by hosting conferences, charity events and holiday parties, as well as with local F&B vendors. The enhanced brand image from improved hotel F&B reputation among residents and communities could allow hotels to increase their room prices, and thus overall profitability, without losing customer demand. "Considering the effects of outside-hotel customers on hotel performance", say the researchers, "hotel firms should treat outside-hotel guests as their main target and develop management practices related to them". These could include a system to track outside-hotel customer purchases and record details of hotel F&B activities.

POINTS TO NOTE

- Patrons of hotel restaurants and bars who are not staying at the hotel are a major revenue stream.
- Hotels should diversify their food and beverage services, e.g. offer different price brackets and takeaway options, to attract outside-hotel customers.
- High-quality restaurants and bars are an effective investment in brand strengthening.
- Hotels can connect with communities via outside-hotel customers, e.g. offering wedding services or partnering with local businesses.

Mun, Sung Gyun, Park, Eunhye Olivia and Woo, Linda (2022). Strategic Target Customers of Food and Beverage Offerings in Full-Service Hotels: Outside-hotel Customers. *International Journal of Hospitality Management*, Vol. 102, 103159.