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Hotel Restaurant Concept Selection Considerations

Which Factors to Take into Account?

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PART ONE

Introduction

Hotels fulfill a variety of roles in our society. For many travelers and vacationers, a hotel is a home away from home. A wide range of social and meeting activities are held in a hotel such as weddings, meetings, tradeshow, conventions and family reunions. Hotels provide employment for many and support the local community through the collection of taxes such as sales, payroll and hotel. Various facilities and services can be offered or housed in a hotel such as guestrooms, meeting rooms, spa and fitness facilities, restaurants, bars, casinos, parking facilities and business centers. Depending on the location and function of a hotel, its facilities can be geared primarily towards hotel clientele only (for example in a resort in a remote location) or the hotel and its services can be marketed to a combination of hotel guests and local residents and consumers (individuals and businesses). The latter may be the case with a business hotel in downtown Manhattan for example. When a hotel operator follows a strategy of serving different market segments concurrently, he can be faced with difficult questions and decisions about how to develop, design and manage the hotel's facilities and service offerings. Many decisions about the programming and development of a hotel will impact the hotel operation for many years to come and will therefore have a significant impact on the success potential of the hotel. Should a hotel have 10,000 or 15,000 square feet of meeting space? Should the hotel have one or two restaurants and what concepts should these restaurants be all about?

With the role of hotel restaurants changing in the United States and an apparent need for hotel restaurants to become more competitive and distinct in the overall restaurant marketplace, ensuring that the appropriate restaurant concept is chosen for a hotel restaurant site is becoming more important. As the hotel restaurant marketplace is evolving, there may be an opportunity to

identify and review which criteria a hotel owner or operator can consider in this hotel restaurant concept selection process. This will be done through a literature review of the restaurant concept selection and development process as well as the restaurant and retail site selection process.

Following a description of the purpose of the paper including the research objective, its justification as well as the constraints of the project, the findings of the review of the literature will be presented. Conclusions will be discussed and recommendations will be made for hotel operators faced with the challenge of determining which concept to choose for a hotel restaurant project in the final part of this paper.

Purpose

Various factors such as the changing role of food and beverage in hotels in the United States and the intensifying focus on the financial performance of hotels and individual hotel departments are elevating the importance of the decision of which restaurant concept to use for a given hotel restaurant site. Since the average life span of a restaurant concept is five to seven years and the capital investment of a restaurant is high, it is crucial for a hotel operator to ensure that the choice of a restaurant concept for a hotel restaurant is right the first time around. As a restaurant concept can not be changed overnight and can require a substantial financial commitment, few hotel operators and owners will have the opportunity to rectify a mismatch quickly.

Little has been published about the specific circumstances surrounding hotel restaurant concept choice, the selection process, which specific factors to consider and which specific circumstances, if any, can complicate the selection process. To assist hotel owners and operators with the restaurant concept selection process, the research objective for this paper is to outline

which criteria a hotel operator can consider when deciding which restaurant concept to use at a given hotel restaurant site in an upscale hotel or resort in the United States.

This research question is focused on how to choose between available concepts for a given location and can be categorized as a strategic marketing question. According to Huiskamp (2001), strategic marketing planning can be defined as the process of matching the companies' goals and resources to the opportunities in the marketplace. It is the phase in the marketing process that deals with the research and analysis of the marketplace, the identification of potential market segments and matching the food and beverage (F&B) concept to the market.

Strategic marketing planning can be broken down into two components. The first component revolves around the research of the marketplace and trade area. In the case of a hotel restaurant site, this research will focus on the given location of the hotel and hotel restaurant site. The second part of the strategic marketing planning process deals with matching a restaurant concept with a location or a location with a concept. For a given hotel restaurant site, this second part will obviously focus on determining which F&B concept will be most suitable for the location. The research of the market will need to identify demand and supply characteristics of the marketplace. This information will then assist the hotel operator in identifying possible market opportunities.

Justification

Choosing a restaurant concept in a hotel environment can involve many factors that are similar to concept selection for an independent restaurant. According to Huiskamp (2001), three factors are crucial in restaurant concept development and selection; namely authenticity, creativity and consistency. There are various differences however between hotel restaurants and restaurants not located in hotels that can impact which other factors need to be considered in the

hotel restaurant concept selection process. The location of a hotel restaurant in a hotel as well as the interactions and connections between associates of a hotel restaurant and the hotel organization can increase the overall complexity. This can occur due to factors such as the fixed location of a hotel restaurant, the hotel operator's core competency and the cost structure differences between a hotel restaurant and independent restaurant environment. This research will try to identify factors that a hotel operator or owner can take into consideration in his restaurant concept decision making process. The combination of the unique aspects of a hotel restaurant environment with the changing role of food and beverage and hotel restaurants in the American hotel industry and the limited research on the hotel restaurant concept selection process so far makes the hotel restaurant concept selection process a worthwhile subject for further exploration. The intent with this paper is to provide additional insights to the developing field of hotel restaurant concept selection and to assist individuals responsible for hotel restaurant concept selection with future decisions. As each hotel restaurant location and situation is unique and with the initial notion that limited research has been done so far on this subject, the objective in this paper is only to identify factors to consider in the decision making process

Constraints

This project will review only hotel restaurant concept selection criteria for hotel restaurant concepts for upscale to luxury hotels (Mobil 3 -5 star) in the United States. The physical location (street address) of the proposed hotel restaurant is a given as this restaurant is driven by the hotel site. Whereas an operator of a non-hotel restaurant has the opportunity to move his restaurant concept to a different location, a hotel restaurant operator is bound by the physical location of the hotel as this is the location for which a restaurant concept needs to be

selected. The focus of the paper is on how to choose a restaurant concept for a given hotel location in the United States.

Secondly, this paper is focused on the selection process between one or more available restaurant concepts for the restaurant site under discussion. The assumption is that a hotel restaurant operator will have two or more 'ready-to-go' options available. The question the hotel operator is faced with is how to choose between the available concepts or solutions. The development of a restaurant concept itself is a different type of project and process, which is outside the scope of this paper.

Glossary

A restaurant concept is defined in this paper as the combination of all details in a restaurant operation that lead to a certain image with its customers. Although many elements impact the image, the image is mainly determined by the combination of attributes of food, beverage, service, interior/atmosphere, price level and graphic design elements such as the restaurant name and logo as well as the interior and exterior restaurant signage.

A hotel restaurant will be defined as any restaurant located in a hotel, regardless of the operating structure of the restaurant and possible brand/chain affiliation.

The term 'non-hotel restaurant' or 'independent restaurant' will be used in this paper to categorize all restaurants not located in hotels. Just like hotel restaurants, non-hotel or independent restaurants can have a variety of operating structures and brand affiliations. The term independent refers in the definition to the location of the restaurant, not to the possible chain or ownership affiliation and operating structure.

The terms hotel owner and operator are used interchangeably in this paper. In many situations, a hotel operator will be the hotel owner. In the situation where the owner and operator

are two separate entities, it will depend on the specific situation on which entity, owner or operator, will be responsible for the restaurant concept selection.

Summary

The role of the hotel restaurant in the upscale segment of the hotel industry in the United States is changing. While hotel restaurants share many similarities with free standing or independent restaurants, hotel restaurants are faced with various factors that are unique to a hotel restaurant. The choice of a restaurant concept for a hotel restaurant site has long lasting implications. To assist hotel operators with the selection of the appropriate restaurant concept for a hotel restaurant site and to contribute to the field of hotel restaurant concept selection, the research objective for this paper has been defined as to outline which criteria a hotel operator can consider when deciding which restaurant concept to use at a given hotel restaurant site in an upscale hotel or resort in the United States. The next part of this paper will review what has been published about the research objective so far.

PART TWO

Literature Review

Introduction

In this part of the paper, various factors in the hotel restaurant concept selection process will be reviewed. First, a brief overview of the differences between hotel restaurants and independent restaurants is given, followed by a discussion on how the outlook of many hotel companies on hotel restaurants is changing or has changed. After this, information obtained through the literature review of factors that the party responsible for the hotel restaurant concept selection can consider will be discussed. As little has been published specifically about the hotel restaurant concept selection process itself, literature about parts of the process, related subjects and similar processes in related (retail) industries will be reviewed. The results of the literature review will be presented in the following sections: hotel companies' food and beverage strategies; objectives for the restaurant and hotel; financial considerations; the hotel and restaurant development and design process; location and site considerations; and other factors to consider. It should be clear that not all factors will be applicable to all situations. Furthermore, the factors are described in no specific order

Differences between hotel restaurants and independent restaurants

First, a brief review of some of the factors that make a hotel restaurant different from an independent restaurant is included to better stage the situation with which hotel restaurant operators are faced. As a starting point, the fixed location of a hotel restaurant has various implications for restaurant concept selection. A freestanding restaurant operator can, generally speaking, decide in which location and market to open a restaurant. He has the option to determine location and concept. He can either find the appropriate location for his restaurant

concept or develop a concept for a chosen location. A hotel restaurant operator only has one of these variables to deal with: the concept to place in a given location. Goldman (1993) provides a good overview of the differences between the development process for a restaurant with a pre-selected location (focused on the search for a concept) and one with a pre-selected concept that is geared towards identifying the appropriate location (see Table 1).

Table 1.

Differences Between Pre-selected Concept vs. Location

Identify concept	Identify location
1. Secondary data analysis	1. Define concept characteristics
2. Primary market study	2. Analyze consumer profiles
3. Life cycle categories and trends	3. Select and define customer profile that fits concept
4. Determine market segments	4. Collect secondary data
5. Determine customer profiles	5. Primary market studies
6. Select concept	6. Select market area

Note. From “Concept selection for independent restaurants” by K. Goldman, 1993, *Cornell Hotel and Restaurant Administration Quarterly*, 34 (6), 59–72.

Another factor that can potentially impact the concept selection in a hotel environment is the core competency of a hotel operator. If the statement is true that running the rooms’ side of a hotel requires a different skill set than running a restaurant, the question can be raised of whether the core competency of a hotel operator (rooms operations) provides the hotel operator with enough of the right skills to operate a restaurant successfully in a hotel environment. Anderson

(1999) indicates that the announced arrangement between Ramada franchise systems and Bennigan's enables Ramada's operators to focus on their core lodging business and provides Ramada's guests with a well-rounded hospitality experience, delivered Bennigan's style. Although restaurants and hotels are both hospitality organizations, they might require different management skill sets. Based on a better match of his skill set with what is needed, a restaurant operator might have more options available to execute a restaurant successfully than a hotel restaurant operator with a less than perfect skill set match. Related to this core competency issue is the geographical spread of hotels throughout a region, continent or the world (Shellum, 2002). Local restaurateurs have, in general, a much better understanding of a given market than a global hotel company operator. Specialized restaurant operators/local operators may better direct the food and beverage choices of hotel's local area, an expertise that (international) hotel operators will most likely not be able to obtain (Brecht, 1998).

Depending on the marketplace, the F&B cost structure in a hotel and hotel restaurant can be different than the one found in an independent restaurant environment due to a variety of reasons (Brecht, 1998). This difference in cost structure can potentially impact restaurant concept choices. For example, a concept under consideration might require a kitchen line set up with six culinary positions. This staffing model may work financially in an independent restaurant environment but not in a hotel restaurant environment due to the higher labor costs per culinary position. Various reasons can be identified for the cost structure differences. Hotel foodservice workers are unionized to a greater degree than workers in independent restaurants, and wages and benefits for hotel employees are typically more generous than those of independent restaurant employees in comparable roles. Even non-union hotels have more extensive employee benefit packages than those in independent restaurants. As a result, staffing levels affiliated with

a restaurant concept might play a more important role in the hotel restaurant concept selection process than in the selection of a concept for an independent restaurant.

A second reason for the higher food and beverage cost structure in a hotel environment is derived from the role food and beverage can play. Food and beverage can be considered and used as an amenity intended to enhance a hotel's image and service. For example, many hotel restaurants provide longer hours of service than independent restaurants. Hotels serve meals seven days per week, three meal periods per day. By contrast, independent restaurants have in general more flexibility and can close during unprofitable mealtimes, days or even entire seasons. This difference in service drives hotels' already higher payroll and related costs higher.

Related to the 'amenity' factor is the guest convenience factor. For guest convenience, hotels often operate multiple food and beverage outlets on one site to meet a range of dining needs. Operating a medium-priced restaurant, a fine dining site and even a specialty themed restaurant inside one full-service hotel is common in major U.S. cities. Such facilities require multiple kitchens with duplicate staffing, expanded managerial controls and higher costs for distribution of food and supplies as well as maintenance. The need or desire to provide catering and meeting services in a hotel can contribute to this as well.

Change in Outlook

The world of hotel management is becoming more complicated due to a variety of ongoing developments. The hotel industry continues to consolidate on the hotel operators' as well as on the hotel owners' side. Branding and lifestyle branding continues to grow in importance in our society and is impacting the hotel industry as well. The development and growth of the internet, combined with the ever-changing technology has forever changed the way

a hotel operator manages its hotel distribution channels. Last but not least, the ongoing focus of Wall Street on short term financial results continues to impact the way hotels are being operated.

One specific area in the hotel where the impact of the above (societal) changes is clearly felt is in the way hotel operators develop and operate hotel restaurants. Hoteliers have started to utilize high profile chefs and well known restaurateurs and have changed the way they look at hotel restaurants in order to be able to compete with neighborhood restaurants (Hume, 2003). Without being able to pinpoint which reasons are driving the change, it can be argued that the point of view of hotel operators on the role of hotel restaurants in the United States has started to change. In the past, the thought was that a hotel restaurant needed to appeal to a wide audience (Huiskamp, 2001). Hume (2002) defined this as every hotel restaurant trying to be a chameleon. From serving breakfast in the morning to being a concept restaurant at night; it all needed to happen in the same physical setting. The result of this was a generic, non-distinctive restaurant that did not appeal to anybody. Erich Steinboch, a former vice president of food and beverage for the Ritz Carlton Hotel company, believes that the typical generic hotel restaurant does not work any more as guests now want to have a sense of place; they want to be able to walk into a restaurant and understand what the restaurant is all about (Hume, 2002). According to Robinson (1998), hotel guests in general appreciate the convenience of hotel food and beverage outlets but will leave the hotel for known brand restaurants when they have the opportunity to do so. With consumers becoming more brand driven, competition for food and beverage dollars from hotel guests will intensify for hotels (Robinson, 1998).

Another reason for the change in outlook, given by the Director of Concept Development for Marriott International (Hume, 2002), is that hotel restaurants in the past were regarded more as “derivative than innovative” with concept development driven more by the direction of

corporate employees than local market conditions. Shellum (2002) states that hotel restaurants are being overtaken by street-wise competitors who develop more distinct concepts and adventurous cuisine.

It appears that the hotel operators' outlook on hotel restaurants is changing as well due to the fact that hotel companies are realizing that food and beverage can be a great source for revenue growth. Many hotel companies are focusing their attention on food service operations, targeting local consumers as well as hotel guests (Hume, 2002). Hotel operators are approaching restaurant concept development much more seriously. This has led to a greater number of hotel restaurants being managed as if they were run by independent restaurateurs, according to Pennette, the CEO of the CB5 restaurant group (Hume, 2002). Several general managers of hotels and resorts in Florida have brought in 'celebrity chefs' with great success over the last 10 years (Pack, 2003). The general manager of the Dolphin and Swan hotel says that "you'll have a hotel restaurant that is producing a couple of million dollars a year and you'll put in one of those restaurants by a famous chef and you are doing \$5 million in a heartbeat." (Pack, 2003). Michael Sansbury, regional vice president of operations for Loews Hotels states that "it is very difficult for an unknown, stand-alone hotel restaurant to break through the competitive clutter and bring in anything but the captive, stay-in audience" (Pack, 2003).

Restaurant Development

A hotel operator can be faced with restaurant concept selection in a variety of situations, the most obvious time being during the development of a new hotel. Similar discussions can and will take place when the decision has been made to re-concept an existing hotel restaurant or during the re-branding of a hotel when an existing restaurant concept does not match the brand

image of the new hotel flag. How and based on which criteria can a hotel operator choose between available concepts for a given hotel location? Which factors should he consider?

Restaurant development, regardless of whether the restaurant will be an independent, chain, franchise or hotel restaurant, is in general driven by a combination of five factors – namely, the restaurant concept; the market demand for the restaurant concept under consideration; the restaurant location under consideration; available funding; and the quality and experience of the management team (Huiskamp, 2001). It has always been said that location is one of the key factors, if not the main factor, for the success of a restaurant.

The success of a restaurant is driven by location, location, location. Rose (1992) emphasizes this point by stating that site selection for a restaurant franchise is one of the most important decisions in a franchising process. If the location of a restaurant is so crucial for the success of a restaurant, it could be argued that a hotel restaurant in a less desirable location is doomed to under-perform at best. However, Huiskamp (2001) believes that a well-defined restaurant concept in a trading area that is sufficiently large can do well even in a location which is off-the-beaten-track. His argument is that the quality of the restaurant concept and the degree of differentiation from the competition are more important in the success of a restaurant operation than the location factor. If this is true, a hotel restaurant might have more potential than previously thought. Maybe the success of a restaurant is driven by concept, concept, concept.

Furthermore, Goldman (1993) states that the most important consideration in choosing a restaurant concept for a specific location is to determine who the customers of the restaurant will be. Determining which customers to target and ensuring that the identified market segments are large enough to support the chosen restaurant concept are now more important than ever due to market saturation and increased food knowledge of consumers (Goldman, 1993). Data to review

should include all pertinent information about the area and information specific to the restaurant (and hotel) industry. This raises another question for hotel restaurant operators. If a hotel operator wants to position a hotel restaurant as an independent restaurant, should he only consider the demographics of the local market or the demographics of the hotel audience as well? To remain competitive, hotel and hotel restaurant operators need a thorough understanding of marketplace and consumers. Questions like who are the ideal customers for a concept and where do they live and work, how far and how long are they willing to travel to a restaurant site and how much are individuals in each customer segment willing to spend on a given visit need to be answered before a final concept choice can be made.

It appears that differences exist between hotel restaurants and independent restaurants and that these differences can impact the way hotel restaurants are being operated. The outlook of hotel operators on the role of restaurants in hotels is changing, potentially impacting the hotel restaurant concept selection process. With this in mind, it is now time to review the various factors a hotel operator can consider in the hotel restaurant concept selection process.

Hotel ~~Company's~~ Companies' Food and Beverage and Branding Strategies

The first group of factors to consider when deciding which hotel restaurant concept to select revolves around the hotel company's food and beverage strategy including branding, the specific objectives for the hotel restaurant in question, and the available restaurant concept options. It is important to keep in mind that the hotel restaurant concept selection question can come up in multiple circumstances such as a new build situation, a renovation or a decision to re-concept a restaurant.

As a result of the various factors to consider (developing concepts internally or not, the outsourcing options, branding questions), various hotel companies and operators have developed

different food and beverage and hotel restaurant strategies. Some company, such as the Ritz Carlton and Four Seasons, pursue a strategy of maintaining an outstanding reputation for food and beverage. Other hotel companies, especially those with lower tier brands such as Sheraton, Courtyard by Marriott or Hilton Garden Court, focus more on operational efficiencies.

The success of many hotels can be attributed to the success of their food and beverage operations. The hotel restaurant can impact this overall success substantially as many guests and clients see the quality of the hotel restaurant as a symbol and representation of the hotel's overall food and beverage quality and experience (Michaelides, 2003). To illustrate differences in food and beverage strategies between various companies, the strategies of several hotel companies will be reviewed briefly.

Shangri-La is pursuing a strategy of developing restaurant concepts in house. Shangri-La is working with renowned interior designers to create restaurant concepts that can compete with free standing concepts that are being developed by entrepreneurs (Shellum, 2002). Shangri-La's F&B director believes that hotels should reflect lifestyles; lifestyles that have to be incorporated into the overall food and beverage strategy and thus hotel restaurant concepts as well. Omni Hotels is focused on developing and managing its own food and beverage facilities, including all its restaurants. The reasoning behind this strategy is that Omni Hotels believe that by keeping all F&B management under its own management, it will be in a better position to improve the overall service delivery, maintain more flexibility and avoid losing revenue to third parties (Bennett, 1999). Omni has developed a collection of concepts that look and feel like unique, free-standing concepts.

Starwood acquired a minority interest in Grill Concepts, Inc. in July 2001. Earlier that year, it announced its intention to develop The Grill on the Alley and Daily Grill in Sheraton and

Westin Hotels (Ansel, 2001). According to Starwood, The Grill on the Alley and Daily Grill restaurants offer excellent service and established concepts that complement the brand strength of Starwood's upscale hotel properties. By working together with Grill Concepts to develop restaurants in Starwood properties, Starwood believed that they would be enhancing the overall hotel experience for hotel guests (Ayala, 2001). Wyndham announced in 2001 the opening of Shula's Steak Houses in five of its hotels. In its press release, Fred Kleisner, Wyndham's CEO, was quoted as saying that "each of these restaurants will serve business, conference and leisure travelers as well as create an exciting dining destination for local residents. An upscale steak house, like Shula's, is the perfect complement to our brand and our hotel properties" (Anonymous, 2001). Ritz Carlton's strategy is to have celebrity chefs in its hotel restaurants "who will create the kind of place travelers will drool over before they leave home" (Pack, 2003). As many affluent travelers watch the food shows on channels such as the Food Network and eat in interesting places while traveling for business, they now have much higher expectations of hotel restaurants in high end hotels (Pack, 2003)

As the decision for a restaurant concept will most likely have to be in line with the company's food and beverage strategy, a key consideration will be to determine what this strategy is and how to apply it to the specific hotel property. As stated above, various options are available in the hotel industry. Several key questions will need to be or have been addressed by the stakeholder before the next steps can be made in the selection process. The first key question is whether the hotel restaurant should be operated by the hotel operator or by a third party. Should the hotel restaurant operation be outsourced or not? Hemmington (2000) provides several outsourcing considerations. He states that hotel companies are investing these days primarily in the development of (skills in) international marketing, global distribution systems, reservation

and yield systems. The rooms' side in a hotel is much more controlled and predictable due to the fact that the majority of guests tend to make reservations. Restaurant management on the other hand is focused much more on local marketing, more frequent guest interactions, and a more intense focus on cost control. This raises the question whether a hotel operator will be able to develop leaders that are equipped to run hotel restaurant operations. If not, outsourcing might be a viable solution.

Secondly, the brand compatibility between the two organizations should be a consideration when reviewing outsourcing. The restaurant brand and/or brand of the company to which the hotel restaurant will be outsourced, needs to match the hotel brand or the hotel company's branding strategy.

In line with this is the need for the corporate cultures of the two companies to match due to the fact that the two organizations will have to work side by side. Associates of both organizations will most likely share back of house facilities such as locker rooms, cafeteria and receiving areas. Despite the best agreements upfront, this sharing will most likely lead to some operational tension at times. The more the cultures are aligned, the better equipped both organizations will be to deal with this tension. A related question revolves around the whether or not the hotel operator wants to develop restaurant concepts. As this paper does not deal with the restaurant concept development process, the assumption will be made that a hotel operator will either have internal restaurant concepts available for use or not.

Related to the food and beverage strategy question is the question of which hotel restaurant concept options are available to a hotel restaurant operator? The first option is a hotel restaurant concept, developed or to be developed by the hotel operator. An existing restaurant concept could be a restaurant concept that has been used before at a different location or a

concept that has been or continues to be in use in multiple locations. An alternative is for the hotel operator to develop a new restaurant concept, either specifically for the hotel site under consideration or to be used at multiple locations going forward. A second option to consider is to operate the restaurant under a franchise agreement with restaurant franchisors such as Shula's Steak House, Trader Vic's, Morton's Steakhouse or Ruth's Chris Steakhouse (Pack, 2003) or with restaurant concept operators such as B.R. Guest Restaurants or Lettuce Entertain You Enterprises. The advantage of such an option is the fact that the operator is buying a proven concept, ready to be implemented and used. Establishing a form of an agreement with a third party is another option to consider. Various alternative types of agreements could be reviewed, ranging from a straight lease of the restaurant space to a management or a license agreement. These arrangements can be made by a variety of entities or individuals such as national or regional restaurant operators, local restaurateurs or 'celebrity' chefs such as Jean-Georges Vongerichten or Michael Mina.

Another option is for one of the stakeholders such as the hotel owner or the hotel operator to form a legal entity with a third party (restaurateur or celebrity chef) and have this joint venture operate the hotel restaurant. This is for example done by the Harp Group, the owner of the Westin Chicago North Shore. This ownership group has formed a new company with Rick Tramonto, a celebrity chef, to operate various hotel restaurants including two restaurant concepts at the Westin Chicago North Shore. In this type of joint venture, it is quite common for a hotel operator or owner to provide the capital funds whereas the chef/restaurateur puts in intellectual property and expertise.

Based on the above options, the decision maker should review additional specific factors relating to the hotel restaurant's site and the overall project under consideration as they might

impact the availability and selection of specific options. How much experience (time plus number of locations) does the hotel or restaurant operator have with the concept under consideration? What has been the success rate of the concept and what are the identified drivers for the success? What kind of information does a hotel restaurant operator have about its targeted audience for the restaurant under consideration? What is the preferred audience for the restaurant concept under review?

With regards to the use of internally developed hotel restaurant concepts, hotel operators will most likely still face several challenges when evaluating available restaurant concepts. As many hotel operators until recently did not target the local market with their hotel restaurants, hotel operators have in general not tracked the profiles of hotel restaurant guests. It is therefore possible that little information is available about the customer profiles for a concept. Secondly, not many hotel companies have developed restaurant concepts that have been successfully used in multiple locations already.

The execution potential of a food and beverage strategy could be a consideration in the selection process as well. How 'available' or interested are third parties in the hotel restaurant site? Anderson (1999) indicates that due to increased competition and a limited number of prime independent restaurant sites, restaurant operators are now showing a stronger interest in non-traditional independent restaurant sites, such as hotels. In theory, a hotel operator could consider third party affiliations for a hotel restaurant site but how realistic would such an affiliation be? Will a hotel operator be able to find the appropriate third party for the hotel restaurant site on terms that make economic sense? Many hotel owners would love to have a Charlie Trotter restaurant in their hotel but that does not necessarily mean that Charlie Trotter is interested in the hotel restaurant site or willing to do it on terms that will make such an affiliation economically

feasible for the hotel operator. A celebrity chef, being pursued for a specific site, might be committed to other projects and therefore not available for the project under consideration. Is the desired franchise available at the location under consideration? Site restrictions or franchise territory rights could prohibit the use of a desired franchise at the proposed hotel restaurant site. Some franchisors such as the Atlanta Bread Company require a potential franchisee to commit to a minimum number of locations within a certain radius; this requirement can block the use of a desired franchise for a particular hotel restaurant.

A related but somewhat different question the hotel operator will have to answer is whether the hotel restaurant should be branded or not. At the same time, the hotel restaurant operator will have to consider how the restaurant concept will match and complement the brand (strategy) of the hotel. For example, a restaurant in a W Hotel will most likely be different than a restaurant in a Marriott Courtyard due to the different positioning of each hotel brand. The hotel industry offers many co-branding opportunities between a hotel operator and third parties such as having Starbucks[®] licensed stores at Westin hotels and restaurant franchises such as Ruth's Chris Steakhouse in Embassy Suites and Shula's Steak Houses in Sheraton and Westin hotels. Other examples are Spago at Four Seasons, Roy's at various Marriott properties and Norman van Aken at the Ritz Carlton in Orlando (Michaelides, 2005a). The idea behind co-branding is that two or more brands together can command greater consumer awareness and traffic than a single brand operation can alone (Boone, 1997). Some hotel operators develop their own branded food and beverage products, services, experiences, and outlets. Marriott has developed internal brands such as JW's Steakhouse, Allie's American Grille and Champion's Sports Bar which are located in multiple Marriotts across the country.

Branding a hotel restaurant can offer several advantages. Branded restaurant concepts in a hotel can put a traveler at ease (Robinson, 1998). Secondly, branded restaurant can generate additional external traffic and enhance the local consumers' image of the hotel restaurant, as well as the hotel. Offering branded hotel restaurants can become a point of differentiation for hotel companies as the hotel industry further consolidates (Robinson, 1998). Another advantage of branding is that it can overcome the perceived stigma that Robinson alleges is associated with dining in a hotel restaurant. Replacing a typical hotel restaurant with a branded concept can help overcome this stigma. This concept strategy works for guests who travel frequently to hotels within the chain. The challenge however is to establish a reputation in various markets with local residents. Kimpton Hotels has a strategy of branding and naming (hotel) restaurants in such a way that from a guest's perspective are detached from the hotel and thus from the hotel restaurant stigma (Michaelides, 2005a). Based on the success of operating its restaurants in hotels, B.R. Guests has decided to branch out into hotel operations and has launched its own hotel brand, James Hotels (Perlik, 2004). According to Robinson (1998), hotels that have added branded restaurants have reported improved overall food and beverage revenues as well as increased room occupancies and average daily room rates.

As reviewed in this section, the hotel company's food and beverage strategy can impact the hotel restaurant concept selection process. A company's general food and beverage strategy can be impacted by and adopted to a specific location and ownership specific objectives.

Location Specific Objectives for Restaurant and Hotel

The location specific objectives for a hotel, the hotel restaurant site and the restaurant concept under consideration should be reviewed as it is possible that the goals and strategy for the specific project are different than those of the overall stakeholder. A hotel company can have

a general food and beverage strategy of developing and operating all hotel restaurants internally. Such a company might decide to deviate from its general strategy in specific locations due to ownership requirements, market conditions or other considerations. It is therefore important for the appropriate stakeholders to review the property's specific objectives for one or more hotel restaurants as this can impact which restaurant concepts to consider.

Various hotel and casino operators follow a strategy to create hotel and resort destinations in cities such as Las Vegas, Orlando and Atlantic City. Having high end restaurants operated by celebrity chefs is part of the destination strategy and can be quite different from their generic food and beverage strategy. According to Gamal Aziz, president of the MGM Grand Hotel & Casino, guests want to have memorable experiences in these destinations based on the money they spend (Matlack, 2006). An additional factor is that these destinations are attracting guests who are willing to spend \$200 or more for dinner (Matlack, 2006).

The hotel operator's goal of wanting to meet specific rating standards of organizations such as AAA or Mobil also can play a role in the restaurant concept selection. Hotels need to have a restaurant that is open for breakfast, lunch and dinner in order to be eligible for a 4-diamond rating from Mobil. A concept that will only work for dinner can therefore not be considered for a hotel that has only one restaurant if the company wants to obtain this 4-diamond rating.

The role of the restaurant under consideration in the overall hotel or resort can be a consideration as well. Will the restaurant function as the primary hotel restaurant or will it be a secondary restaurant, open for specific meal periods or days only? The proposed or desired utilization of the restaurant space and restaurant kitchen can be a factor to consider as well. Will the restaurant kitchen be used for other production functions such as banquet preparation and

room service? Will the restaurant itself be used for other purposes (for example banquet seating)? If so, the restaurant concept might have to become a broader and more general concept than if the space and kitchen is solely dedicated to the restaurant function.

The impact of the hotel restaurant on the guests' perception of overall food and beverage quality can become a consideration in the restaurant concept selection process as well. The restaurant and its performance, reputation and acceptance by the various stakeholders such as guests, local residents and party planners can have a tremendous impact on the success potential of the other food and beverage facilities in a hotel. For this specific reason, Wynn Las Vegas has developed a hotel restaurant strategy that is geared towards creating the best restaurant experiences possible (Michaelides, 2005b).

Hotel specific financial considerations such as the expected return on investment, revenue expectations, profitability and cash flow should be evaluated for the specific location. These considerations can apply to the ownership of the hotel as well as the hotel operator if these two are different parties. This is further addressed in the next section.

Financial Considerations

The potential financial implications of the decision regarding which hotel restaurant concept to select will need to be considered. The development and start up cost of a restaurant concept can be significant. The start up costs for a new concept or the introduction of an existing branded concept may be between \$500,000 and \$ 1.5 million (Robinson, 1998). Many restaurant concept developers (including 'celebrity' chefs) will charge a hotel operator an initial development fee, regardless of whether the concept is new or already fully developed. This development fee, common in the restaurant industry, can be compared to the initial franchisee fee charged to hotel operators for the use of a hotel franchise. Additional development costs may

include the initial research of the marketplace to determine which restaurant concepts to consider. Finding the appropriate third party concept, celebrity chef or operator might require the use of a broker whose commission will need to be funded.

A second set of financial factors to consider in the restaurant concept selection process is the financing of the hotel project. The hotel pro-forma, used by the hotel owner to acquire project financing will be based upon financial projections for all revenue centers in the hotel, including the hotel restaurant under consideration. If such revenue projections, for example, dictate that the restaurant will need to generate \$4 million per year, restaurant concepts that will generate significantly less revenue should not be considered as it would cause the hotel to miss its pro-forma. Related to this are questions about expected projected financial returns for the restaurant, as this can impact the restaurant concept selection. Only those concepts should be considered under which the hotel operator can reasonably achieve the projected financial return on the overall investment. An additional factor to consider is the amount of funds available for the restaurant build out. Considering a restaurant concept that requires an initial investment amount that is significantly higher than available is not realistic. A similar situation can occur in an existing hotel when a hotel operator or owner is considering re-concepting an existing restaurant space. According to Anderson (1999), priority has been and continues to be given to the renovation of profit generating guestrooms, lobbies and banquet space over lower profit or loss generating food and beverage outlets.

The hotel management agreement between a hotel operator and hotel owner, in the event that the hotel is managed by a third party, can impact restaurant concept selection as well (Robinson, 1998). In many hotel management agreements, a hotel operator will receive a commission based on the overall revenue. If the decision is made to outsource a restaurant to a

third party (lease agreement) or to operate the restaurant under a restaurant management or license agreement, additional expenses (license, franchise or management fees) will be incurred at the property level. The question is who should fund these expenses and secondly, is the responsible party willing to do so? Should the hotel owner continue to compensate the hotel operator at the same commission levels for all food and beverage revenue as well absorbing the additional expenses? Should the hotel operator absorb the additional expenses and thus accept (initially) a lower net commission, based on the assumption that either the overall F&B revenues and/or profitability will be better as a result of the third party affiliation? Hotel management companies earning commissions on gross revenue might be reluctant to give up food and beverage revenue to third parties and thus reduce their own income potential (Robinson, 1998)

Attention also should be paid to the investment objectives of the owner in the hotel and hotel restaurant project and the reasons why ownership got involved in the hotel project. A hotel owner who has a long term investment perspective in the project might be more inclined to make a significant investment in a hotel restaurant if he believes that such an investment meets his investment criteria. On the other hand, an owner with the intent to sell the property quickly will most likely limit additional investments in the hotel project as much as possible. Personal ownership motivations can play a role as well. Some hotel owners invest in hotel properties for status, image or personal gratification. Having a specific restaurant, restaurant operator or celebrity chef can be very important for such ownership, and may compromise his other objectives.

Ownership's business relationships and partnerships can come into a play as well. An owner might require the hotel operator to work with one of his business partners or affiliated businesses as a favor, reciprocity or for other reasons. Finally, the risk orientation of a hotel

owner/operator for a specific project can impact the selection as well. A risk-averse investor could potentially be more interested in a solid middle-of-the-road concept with proven average returns versus a risk oriented owner who is willing to accept a concept with more risks but more potential profits.

Hotel and Restaurant Development and Design Considerations

The design and construction of the hotel and hotel restaurant can potentially impact the restaurant concept selection process in a variety of ways. First, the physical space of the hotel restaurant site might preclude specific restaurant concepts from being chosen. For example, a restaurant concept that requires at least 6,000 square feet can not be used in a site where only 3,500 square feet is available. Secondly, in new build or renovation situations, timing can be everything. The stage in the hotel and hotel restaurant development process in which the appropriate stakeholder gets involved can impact the restaurant concept selection. In general, the earlier the appropriate representatives of the restaurant operator get involved in the decision making process about the restaurant, the greater the number of restaurant options that can be considered. If a restaurant operator gets involved at the time design has been completed and construction has already started, he will most likely be faced with a situation where few changes can be made to the restaurant layout and interior design. Depending on the developed design and layout, he will most likely have to identify a restaurant concept that will work within the given design and layout versus designing a restaurant around a chosen concept. This situation occurs frequently as many hotels are being designed by project developers before a hotel operator has been selected. By the time the hotel owner has identified the hotel operator, the design and construction of the hotel has progressed so far along that the hotel and/or restaurant operator can no longer suggest significant changes to the design and layout of the space in question.

The available funds for a hotel restaurant build out can impact the restaurant concept selection. The available dollars will dictate which concepts can be considered. How much money is available for restaurant design and build-out? Manpower can impact the decision as well. The available timing of individuals who are responsible for the opening of a hotel restaurant can potentially influence choice of concept. The use of a concept that will require a significant time commitment of key individuals during a time when these individuals are not available, can lead to exclusion of this concept.

The design philosophy of a hotel company and owner is another factor to take into account. Some owners and operators believe that the look and feel of a hotel restaurant should match the design of the hotel. Concepts with designs that do not meet this criterion can not be considered in such situations. The opposite can be true as well. Marriott International will hire a different interior designer for its hotel restaurant(s) than for the hotel if the budget allows this so as to avoid any potential overlap in design and to create a unique, distinctive design (Hume, 2002). The experience of the designer of the hotel restaurant can come into play as well. A designer with little (hotel) restaurant experience might not be able to translate a concept into a design that supports the chosen or desired concept.

Local Market and Site Review

As the restaurant concept should fill a need in the marketplace, the hotel restaurant operator should consider local market conditions when reviewing available concepts. To determine what concepts have the greatest potential in the given marketplace, questions like what type of traffic and dining demand could be captured in the trade area and what do local demographics and lifestyle characteristics suggest about market demand should be reviewed. Who are the existing competitors and how successful are they? What dining concepts are

missing from the trade area? According to Goldman (1993), the most important consideration in choosing a restaurant concept for a specific location is to determine who the customers of the restaurant will be. Determining which customers to target and ensuring that the identified market segments are large enough to support the chosen restaurant concept are now more important than ever due to market saturation and increased food knowledge of consumers (Goldman, 1993).

Data to review should include all pertinent information about the area and information specific to the restaurant (and hotel) industry. This information can be categorized into five areas: market review, site review, restaurant market review, trade area review, and segmentation. Two models (one for restaurants and one for retail) found in the literature can potentially assist in this review. A model developed by Ryan, B., Kures, M. & Way, B. (2002) for the evaluation of restaurant opportunities in downtown areas can be used as a framework for such review (see Figure 1).

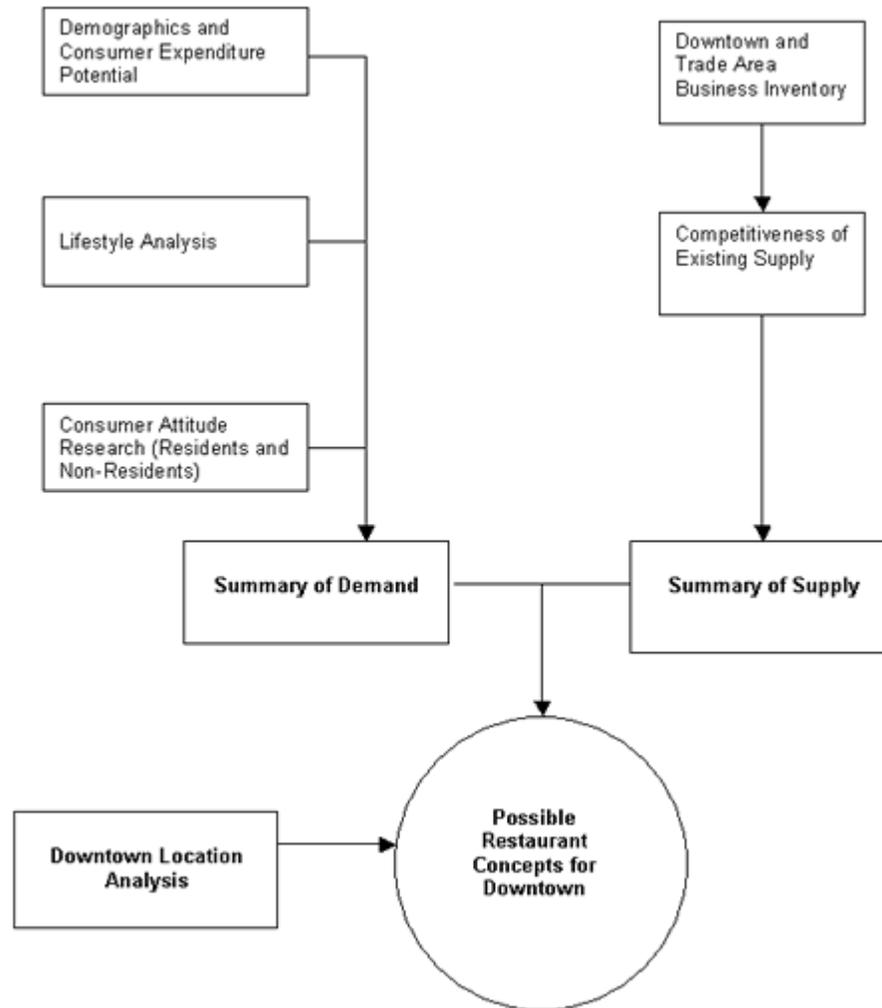


Figure 1. Restaurant Opportunity Evaluation Model.

From “The downtown and business district market analysis guidebook,” by Ryan, B., Kures, M. & Way, B, 2002, Chapter 11. Evaluating restaurant opportunities. University of Wisconsin.

Retrieved February 4, 2006 from <http://www.uwex.edu/ces/cced/dma/11.html>

Mendes and Themido (2004) categorize all location variables to determine the right retail concept for a specific site into the categories ‘site/store’ and ‘trade area.’ The site and store category includes the elements of store size, store configuration and location variables (site

accessibility and site configuration). Current and future sales potential as well current and future expected competition including type and quality are included in the trade area evaluation.

Several restaurant organizations already use site review systems to assist with the collection and analysis of all data needed for a local market review. For example, Darden Restaurants reviews each site for hundreds of elements. Major categories include demographics, economic information, traffic counts and competitors' locations (Perlik, 2001). The use and development of location research methodology (Rogers, 2005) can require a significant dollar and time investment. The need for local research is driven by the continuing fragmentation of consumer markets which requires an in depth analysis of a marketplace to determine whether the marketplace has individuals with the right profile to support a retail concept under consideration (Rogers, 2005).

Secondly, research is needed to identify the drivers behind the successes and failures of existing stores to enhance the overall site selection model and to identify which stores to refurbish, reconcept, etc. Restaurants have historically been laggards in the application of new technology and high end fine dining restaurant have lagged even more (Prewitt, 2003). However, more and more restaurant chain conglomerates such as Brinker International, Ruth's Chris Steak House, and Lettuce Entertain You Enterprises, are now using site selection tools. Operators like Levy Restaurants use models more frequently in their non-core markets but they rely on intuition in their core markets as these markets are the markets they know best.

General Market Review

During the market review process (one of the five groups of factors to address in the local market and site review process), a hotel restaurant operator should review factors specific to the neighborhood, city, town or village in which the hotel restaurant will be located. Examples of

factors to consider are the available labor force and skill set; the local economy; unemployment levels; public transportation and infrastructure. Allendorf (Kessler, 2006) states that there are differences in restaurant usages in various cities. In New York, for example, guests might go to a lounge first, then to a restaurant, followed by a visit to a show; whereas in Atlanta, the dining experience is the event of the evening. The character of the city has an impact on what the restaurant experience should and will be. Amick raises the point that every city in the U.S. is in a different restaurant industry development stage (Kessler, 2006). New York is way ahead of a city like Charlotte, North Carolina. This has an impact on what kind of restaurant concept a hotel operator can place in a hotel.

Site and Restaurant Market Review

Various site factors such as facility characteristics, traffic volume and visibility can have an impact on the business potential of the hotel restaurant (concept) under consideration. A list with examples of factors to review is included in Appendix A. The state and type of restaurant market in the trade area could have an impact on the restaurant concept selection process as well. Muller and Inman (1994) have identified six groups of variables to review when evaluating a specific restaurant market area. They are the density of market area restaurants; the stability of the restaurant market; the organizational maturity as defined by the average age of restaurants in the trade area; the retail gravitation; the level of product specialization and the local economic variables such as (un)employment, construction and retail sales levels.

Restaurant density in a market can be described by a model developed by Berry (Muller & Inman 1994), somewhat similar to models used in the retail environment. Berry breaks a restaurant market down into five different groups. The first type is an insulated operator environment with only one or two restaurants operating in a marketplace. A local restaurant

environment with three to ten restaurants is the second market type, followed by an aggregate market with 11 to 50 units. The fourth market type is a competitive market with 50 to 250 units with clearly identifiable niches. The fifth group is the primary market, a market with more than 250 restaurants and significant segmentation. A primary market will have various narrowly defined restaurant concepts, the highest level of menu specialization and the largest number of national and regional restaurant brand operators. New regional dining trends are introduced in such markets and celebrity chefs are born here.

Another factor to consider is the marketing geography or central place theory (Muller & Inman, 1994). This theory shows that when population centers increase in size, retail and restaurant trade in such population centers become more complex and extensive. The higher the level of complexity, the more people will travel to a marketplace in such a population center since more choices are offered. Based on this, such central markets will turn into magnets for further business growth (also known as retail gravity). This is one of the explanations why opening additional restaurants in a high restaurant density area can make sense.

The hotel restaurant operator has to determine in what kind of market he will operate a hotel restaurant concept as it will impact the level of menu specialization needed to increase the likelihood of success. Other factors to consider are the restaurant activity index (RAI), the restaurant growth index (RGI) and the Restaurant Performance Index. The first two indexes are published annually by the magazine *Restaurant Business* (Goldman, 1993). The restaurant activity index (RAI) indicates a population's propensity to spend money dining out relative to the money they spend to prepare food at home whereas the restaurant growth index (RGI) is a statistical prediction of where a new restaurant stands the best chance of succeeding (Goldman, 1993) The National Restaurant Association publishes the Restaurant Performance Index on a

monthly basis; composite index that tracks the health of and outlook for the U.S. restaurant industry (NRA, 2005).

Trade Area and Demand Review

Answers to various questions regarding the trade area can impact the restaurant concept selection process. The trade area is the fourth of five groups of factors to consider in the market review process. What is a trade area and what is the trade area for the restaurant site under consideration? Who lives and works in the defined trade area for the restaurant concept? How will the restaurant be positioned in the marketplace? Will it be first and foremost a restaurant geared towards local residents or will the primary target group be hotel guests? How can the individuals who live and work in the trade area be segmented? Based on which criteria will these individuals be segmented and is that information readily available? How will the available data be interpreted (Goldman, 1993)? Quite often, the interpretation of data is missing in market analysis.

The definition of the trade area for a hotel restaurant concept can impact the restaurant concept selection just as the restaurant concept can impact the definition of the trade area. The purpose of defining a trade area is to be able to determine the market (revenue) potential for a restaurant (concept). The trade area, also called catchment area, can be defined as the geographical area around the market from where it is assumed the majority of the business originates (Huiskamp, 2001) with the demand generated by individuals affiliated with a business/commercial side as well as demand generated by individuals on the consumers/private side. The size and boundaries of the trade area are determined as well as impacted by the concept under review.

A quick service restaurant has a different trade area than a destination restaurant, even when both restaurants concepts are located in the exact same physical location. The trade area is determined by travel time and not just distance as distance does not take natural or man-made boundaries such as water, one way traffic, nature or housing into account. The argument can be made as well that the better and more unique a concept is, the greater the trade area can and will be (Huiskamp, 2001). The trade area for a restaurant concept will most likely be different for various meal periods such as weekday lunches, weekday dinners and weekend business due to different clientele. Shaw and Cresswell (2002) highlight the fact that even using travel time has its limitations as “rich car-owners may travel much further than poor pedestrians.” The trade area can be broken down into the “immediate” area, defined as the area around the site of which 80% of the business is generated and the “greater surrounding” area, making up the remaining 20% (Shaw and Cresswell).

Within the trade area, various elements such population centers and density, number of households and/or businesses, the growth of the market area, level of income and median age should be reviewed (Goldman, 1993). Which criteria to review should be based on the concept under review and the initially targeted type of clientele? For example, for a concept geared towards the business/commercial market, it will be more important to determine the number of businesses within the trade area than for a concept that targets the individual/private/consumer market.

Census data can be used in this exercise although the user has to be aware of the limitations of such data. Census data does not include information about people who work in an area and live somewhere else; people who are visiting the area (New York) or people who are just passing through (highway hotels). When reviewing the daytime population, it is important to

keep in mind that the number will most likely exclude homemakers, the unemployed, self-employed individuals and students. Furthermore, demographic information is in general secondary information which is gathered for general purposes, not specifically for the problem under investigation (Goldman, 1993). Collecting primary data (by some called gut-demographics) can be done by driving around the site, eating in competitive restaurants and by talking to local residents and business owners. Farkas (1997) recommends conducting primary research as well through activities such as checking out cars in parking lots in competitive restaurants and by talking to servers and managers in local restaurants and hotels.

A significant challenge for a hotel restaurant operator is to determine upfront what the desired mix of hotel guests versus local residents for the restaurant could and should be. The possibilities range from positioning the hotel restaurant as a restaurant geared 100% towards hotel guests to a restaurant with a target audience of 100% local residents. When hotel guests come from a broad geographical area, segmenting those hotel guests who might use the hotel restaurant into segments might not be feasible or economically justifiable. In such situation, a trade area analysis for a hotel restaurant concept under consideration will only provide valuable information if a significant share of its market potential is derived from the local market area.

After the initial trade area for the hotel restaurant concept has been identified, possible demand generators in the trade area should be identified, such as theaters, offices, retail, sports arenas, attractions (such as a zoo) and residences (Huiskamp, 2001). Such demand generators could be categorized by sources of business (Rogers, 2005) into home-based, work-based, adjoining land uses, drive-by/highway oriented, tourists, and in the case of hotels, hotel-driven. Other factors to consider are future plans for the trade area, as well as transportation systems and routes. Related to the question of which factors can generate demand in a trade area is the issue

of which criteria to use to analyze the marketplace and to determine the market potential.

Huiskamp (2001) suggests using a breakdown of demographics (age, family life cycle, education, social class or income), psychographics (lifestyle) and behavioral aspects (buying attitudes, ways of using the product).

Various (software) systems are available to help with the trade area definition. An example is iPredict (Claritas), consisting of a primary trade area (PTA) estimator (which can convert the population and consumer density around a proposed site into an estimated PTA radius or drive time) and a lifestyle segmentation index table. Such a table uses consumer data to determine which and how many lifestyle segments will patronize the proposed site. iMark from Claritas allows restaurant operators to determine estimated consumer demand for a particular restaurant concept as well as demand for individual menu items by combining Claritas' demographic, consumer demand and business databases with a company's proprietary information.

GeoVue (www.GeoVue.com) offers the MarketVue Portal, a web based platform for deploying iSite (site selection software that integrates demographics, business intelligence and customer data with mapping tools) and iPredict (a sales forecasting tool). This tool can map and analyze competitor location, predict daytime population demand and calculate drive time. The application of theory, technology and geodemographic analysis starts with a customized database and maps. This technology is still underutilized in the restaurant industry but has great potential to change the way restaurants are designed, sited and operated (Muller & Inman, 1994)

One of the challenges facing hotel operators is the lack of consumer data about guests in its existing hotel restaurants. The available information about hotel restaurant guests is not necessarily increasing despite the ongoing consolidation of the American hotel industry. The

growth of the number of hotels under the Marriott, Starwood, Hilton or Intercontinental brand flags is driven largely by an increase in the number of franchised properties. Owners and operators of these franchise properties do not share detailed performance data with the franchisor organizations about their hotels and/or hotel restaurant operations. Therefore, the ongoing consolidation does not necessarily translate into more knowledge on a corporate level about which restaurant concepts are successful in which markets for which reasons and the clientele that specific restaurant concept attracts.

Segmentation

With the trade area defined and the collected data about the population in the trade area, the hotel restaurant operator now must determine how to interpret and connect it to a concept. By combining demographic criteria with lifestyle variables and marketing systems companies can analyze the trade area and identify the sizes and location of target market segments. Significant questions that need to be answered are which market segments can be identified based on segmentation criteria within the trade area and how can information about the various market segments be used to select which restaurant concept has the greatest likelihood of success in that given marketplace? It is crucial to be able to assess which concepts appeal to which consumers. Assessments of consumers' preferences are best based on lifecycle and lifestyle categories while acknowledging that there can be differences between attitude and actual behavior (Goldman, 1993). Consumers can state that they prefer healthy food (attitude) while actually ordering and eating non-healthy food items (behavior). The consumer's final decision on where to eat can be based on food preference, price, atmosphere and the reason for eating out on a particular occasion. A study, conducted by the National Restaurant Association in 1989, identified five

basic reasons for dining out: “having a fun time, having a nice meal out, satisfying a craving, making sure everyone has something to eat or just doing the easy thing” (Goldman, 1993).

Various segmentation systems are available to assist an operator with identifying segments in a market place or trade area. The PRIZM[®] database (Potential Rating Index for Zip Markets) is a neighborhood target marketing system for the United States produced by Claritas. The database uses national census as well as local and state population data to cluster the U.S. population into various groups (Claritas, 2005). Several demographic and lifestyle variables are used to determine in which cluster each individual or household belongs. Some of the variables taken into consideration are social rank, household composition, mobility, ethnicity, urbanization, and housing. The PRIZM[®] database places households into a wide range of groups and subgroups and each zip code is assigned one or several of sixty-six clusters, based on the shared socioeconomic characteristics of the area.

SPA Marketing systems, a marketing company out of Leamington Spa in England has developed a retail and restaurant outlet classification system based on four dimensions (Shaw and Cresswell, 2002). These four dimensions are GeoDems (a geo-demographic classification system of those who live in the trade area); workplace (a classification based on the number and kinds of people who work nearby the site and the business employing them); Retail Mix (a classification of the kinds of retailing in the immediate locality); and competition (based on the nearest branches of major competitors). Another major company that provides segmentation systems is NPD.

The result of the local market and site review should be a clear overview of the size of the market or trade area, the identification of which market segments to target and what the connection can be between the restaurant concept and market segments under consideration.

Other Factors

The last section of factors a hotel restaurant operator should consider in the concept selection process is made up of three items. Timing can play a role. How much time does the operator have available between concept selection and the opening of the restaurant? The more time, the more choices an operator can consider. On the other hand, having little time available will most likely limit the selection to those concepts that can be implemented in a short time frame.

The marketing efforts to successfully launch a restaurant concept can impact the selection process as well. How much time and effort will be needed to open a restaurant and does the restaurant operator have sufficient resources, skills and experience available to execute the necessary marketing activities? A hotel operator with no experience in restaurant marketing could decide only to consider those restaurant concepts with a fully developed marketing plan so that the operator only has to focus on the execution of such plan and not on the development of it.

Another factor to consider could be whether the hotel operator wants to use the chosen concept again in other locations and if so, in what time frame. If the same concept is going to be rolled-out in multiple locations, more funding and resources might be made available for the roll-out and implementation of the concept. This could improve the success potential of such a concept.

Summary

In this section of the paper, the results of the literature regarding criteria which a hotel operator can consider when deciding which restaurant concept to use at a given site in an upscale hotel or resort in the United States have been reviewed. Various articles about specific elements which can be considered in the selection process were identified and the results of the literature

review can be categorized into several areas. Conclusions and recommendations based on the literature review will be discussed in the part three of this paper.

PART THREE

Introduction

Based on the research objective to identify which criteria a hotel operator can consider when selecting a hotel restaurant concept, a literature review was conducted. Information obtained during this research has been described in part two of this paper. In this final part of the paper, the results of and conclusions based on the literature review will be reviewed. Part three will be concluded with an overview of recommendations for future research.

Results

Although there are many similarities between an independent and a hotel restaurant, one key difference between the two has an impact on many aspects of how hotel restaurant concepts are being selected and how hotel restaurants are being operated. This key difference is the given location of a hotel restaurant in a hotel setting. Whereas an independent restaurant operator has the opportunity to find the best combination of location and restaurant concept, the hotel restaurant operator has to identify a restaurant concept that will work with the given location, namely the site of the hotel in which the hotel restaurant will be located. The hotel restaurant operator has to search for a restaurant concept whereas an independent restaurant operator normally searches for a location (Goldman, 1993).

Additional variances between a hotel and restaurant operator that can have an impact on the hotel restaurant concept selection are the core competencies of a hotel operator versus a restaurant operator (Anderson, 1999) and the geographical spread of a hotel operator versus the geographical concentration of restaurant operators (Brecht, 1998). Furthermore, the cost structure differences between a hotel and restaurant operator can impact the selection process and considerations as well (Brecht, 1998).

The role of a restaurant in a hotel environment appears to be changing. Hoteliers are starting to use high profile chefs and well known restaurant operators for hotel restaurants in order to be able to compete with neighborhood restaurants (Hume, 2003). The typical, non-distinctive, generic hotel restaurant does not work in today's environment where a guest wants to understand what a restaurant stands for (Hume, 2002). Various hotel operators have started to focus on the revenue and profit potential of hotel restaurants and are targeting local consumers for hotel restaurants (Hume, 2002).

The hotel restaurant concept selection discussion can take place in various situations such as the development of a new hotel, the re-concepting of an existing restaurant, the rebranding of a hotel or during the change of ownership of a hotel. Based on the literature review, it appears that little has been published in the United States about the hotel restaurant concept selection process so far. Various articles have been identified, however on subjects which are related to either aspects of the selection process or to factors which can be taken into consideration. This information has been extrapolated to identify the factors a hotel operator can consider in the hotel restaurant concept selection process. With the role of hotel restaurants changing, it is possible that the factors to consider when selecting a concept for a hotel restaurant can potentially change as well.

Factors to Consider in the Selection Process

Various factors that a hotel restaurant operator could consider in the selection process for a hotel restaurant concept depending on his specific set of circumstances are listed below in no specific order. The hotel company's overall food and beverage strategy as well as the food and beverage strategy for the specific hotel brand can impact which restaurant concept options can be considered or are available. The food and beverage strategy of a specific hotel brand could be to

only operate hotel restaurants that are affiliated with ‘celebrity’ chefs. If this is the case, other options such as operating the restaurant with an internally developed concept are no longer available. On the other hand, the Shangri-La’s strategy to develop restaurant concepts in-house will most likely exclude third party restaurant concepts (Shellum, 2002).

A second factor to consider is which restaurant concept options are available to the hotel restaurant operator at the time the selection needs to be made and which ones to pursue. Will, can, or should the restaurant be operated by the hotel operator or by a third party? If the decision is made to have the hotel restaurant operated by the hotel operator, which restaurant concepts are available? If done a by a third party, which operators and/or celebrity chefs might be interested in the location and based on which terms and conditions? The availability, or lack thereof, of third party operators can become a consideration (Anderson, 1999). Related to the question of which restaurant concepts are available for the hotel project under consideration, is the question whether the hotel restaurant should be branded or not (Michaelides, 2005a).

The specific objectives a hotel owner or hotel operator has for the hotel and hotel restaurant under consideration can be a factor in the hotel restaurant concept selection as well. Will the restaurant be the hotel’s three-meal restaurant or the signature restaurant for the hotel? Will the restaurant be positioned as an amenity as might be the case in a resort setting? Is the restaurant considered a necessity to achieve desired Mobil or AAA ratings and will the restaurant (concept) be used to position and differentiate the hotel in the market place (Michaelides, 2005a)? Will the restaurant kitchen be used for other food outlets in the hotel as well?

The financial implications of a concept choice can be a factor to consider as well. The start up cost of a restaurant (concept) can be substantial (Robinson, 1998). Related to this is the question of how much funding is available for the restaurant build-out. The available funding

needs to match the dollars needed to build out a specific restaurant concept. The hotel project was probably financed based on a number of financial assumptions. The chosen restaurant concept will need to be able to meet the assumptions in such a pro-forma. The hotel management agreement between the hotel owner and operator can impact the restaurant concept options as well, depending on how a hotel operator is being compensated by the hotel owner. If outsourcing a hotel restaurant to a third party will lead to lower management fees for a hotel operator, it is likely that the hotel operator will be less inclined to consider restaurant outsourcing options, everything else being equal.

Design and construction issues can impact the restaurant concept selection as well. The available restaurant space (front and back of house) needs to match the available space needed for the concept under consideration. Timing can be a factor to consider. Depending on when the restaurant concept selection process starts in relation to the overall development and construction of the hotel, it is possible that the design and construction of the hotel is already so far along that making changes in design and construction needed to 'accommodate' a specific restaurant concept is no longer possible, thus limiting which concepts can be considered.

The design philosophy for the hotel brand as well as the individual hotel property can impact the restaurant concept selection too. Some hotel companies adhere to the philosophy that the design of the hotel restaurant should be in line with the design of the hotel. If this is the case, concepts that require an interior design that does not match or complement the hotel design are no longer an option.

The local market could and should be a factor to consider in the restaurant concept selection as well. Goldman (1993) considers the most important decision in choosing a restaurant concept for a specific location to be determining who the customers of a restaurant will be. The

local market can be analyzed by conducting a general market, a site, a trade area and a restaurant market review, combined with the identification of target market segments. Several models haven been identified to assist with this process (Mendes & Themido, 2004; Ryan, Kures, & Way, 2002). The general market review should identify factors such as the economic conditions, local infrastructure and employment that can impact the concept selection. The site and restaurant market review should discover site specific elements that can impact the success potential of restaurant concepts under considerations as well as which restaurants and restaurants concepts appear to be successful in the marketplace. Furthermore, underserved concepts can potentially be identified during this review. The trade area definition will be impacted by the restaurant concept under consideration and vice versa. Crucial during the trade area definition phase is for the hotel restaurant operator to determine what the desired and targeted mix between hotel and local consumers should be.

Recommendations

Various factors to consider in the hotel restaurant concept selection process have been identified in the literature review. Based on the fact that no literature has been identified that specifically deals with the hotel restaurant concept selection process itself, combined with the fact that no information has been obtained from hotel operators directly, it is possible that additional factors should be added to the consideration list. Secondly, the listed factors have not been presented to decision makers in hotel companies to validate that these factors are indeed factors used by hotel operators in this selection process. Representatives of hotel companies have not been contacted for this project due to time constraints. With an initial list of factors now identified, such a validation process could be worthwhile as a continuation of this research project.

Two other areas of research have not been explored during this research project due to time constraints as well. The first one is the retail and restaurant store selection process by mall operators. As mall operators deal with a selection process for new stores and restaurants which could have some or many similarities with the hotel restaurant concept selection process (fixed location and how to match a store/concept under consideration with other tenants/brands and the targeted audience of a mall), it is possible that factors in that selection process can be identified that might be applicable to the hotel restaurant concept selection process. The other area of research that can potentially provide additional insights is the hotel site selection process. When a project developer presents a hotel site or hotel project to a hotel operator for consideration, the hotel operator will review this project/site based on a site selection process or model. It is possible that this site/project review model/process can provide complementary insights for the hotel restaurant concept selection process as well.

Future Research

Based on this research project, various opportunities for future research have been identified. The next step could be to be conduct primary research and contact hotel operators to determine whether additional or different factors other than the ones identified during this literature review are being used by operators in the restaurant concept selection process. It is possible that there is a difference between factors listed and identified in the literature and those factors used in real situations. Related to this question would be the research question of how to determine the importance and priority of each of the identified and applicable factors. Would it be helpful to develop a methodology to give weight to each applicable factor? A hotel operator can decide to select a hotel restaurant concept based upon four criteria: namely financial contribution (revenue and profit), brand match, build out costs and alignment with the owners'

preference for the restaurant. With the selection criteria identified, the hotel operator is subsequently faced with the questions of how to measure the 'value' of each chosen factor and how to weigh the chosen criteria against each other.

Additional research on the trade area definition for a hotel restaurant can be helpful as well, especially considering the challenge when a hotel restaurant will serve hotel guests and guests from the local area. Related to this could be further research on the applicability of site selection models and software, presently used for free standing restaurants, for hotel restaurant concept selection decisions. The collection and interpretation of market data can be an area for further research as well. What kind of market data (demographic, lifestyle, etc.) is most helpful to segment the overall market for restaurant visitors, what are the ways to obtain such data and how can such data be interpreted and translated into which concepts would serve the identified segments best?

Although the assumption has been made for this study that a hotel operator could make a choice out of a number of available concepts, more research might be worthwhile on the evaluation of available concepts under consideration. How can a hotel operator evaluate the success potential of a Shula's, Morton's, or Ruth's Chris Steakhouse franchise for a hotel site under consideration and how is success defined? How can a hotel restaurant operator define the various factors in such ways that they can be measured?

With regards to the definition of success for a restaurant concept, more research is needed on the impact of hotel restaurants on the hotel's overall performance. Despite the lower financial contributions a hotel restaurant normally makes to the hotel's profit and loss statement, it could be possible that a hotel restaurant has a bigger or different indirect impact on the overall performance of a hotel than previously thought. If this can be identified in research, it is possible

that the objectives of future hotel restaurants will change, and thus impact the hotel restaurant concept selection process.

Conclusions

As the selection of a restaurant concept for a specific hotel restaurant operation is determined by various variables, it can be argued that that each situation and therefore each selection process for a hotel restaurant concept is unique. The hotel restaurant concept selection process has some similarities to the selection of an independent restaurant concept for a pre-determined location when the location is given. The unique aspects of a hotel restaurant create different and/or additional complexities for the concept selection process than an operator of an independent restaurant. The factors identified in this paper can assist a hotel operator with this process as well as providing insights into the complexity of a hotel restaurant setting.

As no articles have been identified that specifically address the hotel restaurant concept selection process, it is possible that additional factors should be added to this consideration set list. These additional factors can potentially be identified through additional literature research and by obtaining information from those individuals in hotel companies who are dealing with this selection process. The hotel restaurant concept selection process appears to be under-researched. With the role of hotel restaurants changing and growing in importance, this area could and should get more research attention in the near future.

Appendix A

Site Location Considerations Examples

Hotel/restaurant site/location specifics:

- Facility characteristics:
 - Size
 - Other organizations at the site (offices, retail, residences, condos, recreational facilities)
- Site characteristics
 - Circulation
 - Available square footage for restaurant space (front and back of house)
 - Square footage needed for restaurant concept under consideration
- Proximity to customers and competition:
 - Major demand generators (retail, office, lodging, hospitals)
 - List of direct competitors
- Traffic volume:
 - Street and road patterns
 - Speed limit and traffic signs/lights
 - Traffic counts
 - Pedestrian traffic counts
 - Peak and off-peak traffic periods
- Visibility:
 - Visibility from road

- Effectiveness of signage
 - Curb appeal
- Accessibility:
 - Proximity to major streets and highways
 - Ease of entrance and exit
 - Parking (guests and delivery)
 - Pedestrian accessibility
- Competition:
 - Location of competitors
 - Proximity to sources of demand
 - Visibility
 - Parking availability
 - Sign availability
- Local catchment area demography
- Local economics of the marketplace (growing, declining, major employers, etc)
 - Traffic generators

Hotel characteristics

- Location:
 - Urban
 - Suburban
 - Remote
- Type of hotel:

- Resort
- Convention
- Suburban
- Casino
- Downtown
- Size of hotel:
 - Number of rooms
 - Square footage meeting facilities
- Facilities in hotel:
 - Other restaurants and bars

Partly from “Restaurant market analysis’ by Ryan B. and Chrisler, M. 2003. Retrieved April 8, 2006 from University of Wisconsin-Extension Center for Community Economic Development and the Small Business Development Center website:
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Table 1

Differences Between Pre-selected Concept vs. Location

Identify concept	Identify location
1. Secondary data analysis	1. Define concept characteristics
2. Primary market study	2. Analyze consumer profiles
3. Life cycle categories and trends	3. Select and define customer profile that fits concept
4. Determine market segments	4. Collect secondary data
5. Determine customer profiles	5. Primary market studies
6. Select concept	6. Select market area

Figure 1. Restaurant Opportunity Evaluation Model.

