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WHAT KEEPS HOTEL ASSET MANAGERS UP AT NIGHT: KEY INDUSTRY ISSUES AND PROPOSED SOLUTIONS

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ABSTRACT. The Hospitality Asset Managers Association (HAMA), which represents hotel owners globally, regularly surveys its members to identify issues of concern to owners. The association conducts an annual student competition to research these issues and present their results at the annual HAMA conference. The article identifies these issues and presents research conducted by one of the students on the issue of hotel room service and recommends alternatives to room service.

INTRODUCTION

The Hospitality Asset Managers Association (HAMA) is the preeminent organization of professionals responsible for proactively increasing asset values on behalf of hotel owners worldwide. Their mission is the enhancement of hospitality asset managers through education, advancement of the profession, and serving as the collective industry voice of hospitality ownership.

A membership survey conducted in 2014 by the organization identified key guest experience/operating decisions confronting hotels and asset managers and some external threats with which they have to cope. This article presents a summary of these identified issues and presents results of secondary research that suggest solutions and recommendations for hotel asset managers for one of these issues.

With regard to some of the key guest experience and operational factors, about 86% of the survey respondents felt that hotels would find new solutions to room service. When asked how long until free Wi-Fi will become the norm in hotel rooms, about 48% responded within 2 years, and the vast majority—more than 90%—stated within 5 years. A similar question related

to mobile check-in revealed that 65% of the asset managers felt that it will be a norm within 3 years. In the same survey, the primary external threats identified by asset managers included the rising minimum wage, rising health care costs, the leverage of online travel agencies and out-of-control third-party commissions.

Working with authors and asset management mentors, students enrolled in the Hospitality Business Real Estate Investment Management Minor addressed a selection of these issues along with proposed solutions. One of these research papers is summarized and presented in this article.

HAMA PAPER REVIEW—ALTERNATIVES TO ROOM SERVICE BY YUNWEI ZHANG

In the late 1930s, the Waldorf Astoria in New York became the first hotel in the world to offer in-room dining service. At the time the concept was ultra-lux: Guests could order a variety of food and have it delivered to their doorstep in 30 minutes.¹ In 1969, the Westin hotel chain took the concept a bit further and began offering

¹Hilton, Conrad Nicholson (1957). *Be my guest*. Simon and Schuster. ISBN 978-0-671-76174-5.

TABLE 1. U.S. Cities (Ranked From Least Expensive to Most Expensive for Total Room Service Cost)

Destination	Club Sandwich	Water	Peanuts	Soda	Vodka	Dry Cleaning	Total Room Service Cost	Hotel Room Rate
1. Denver, Colorado	11.65	4.44	6.34	3.25	7.17	8.58	41.43	265.33
2. Seattle, Washington	13.00	4.08	5.92	3.08	8.33	7.17	41.58	364.63
3. Minneapolis, Minnesota	12.00	3.50	8.35	3.62	9.17	9.08	45.72	245.49
4. Dallas, Texas	12.33	4.17	8.90	3.17	10.73	9.42	48.72	218.99
5. Orlando, Florida	14.00	4.25	9.53	3.75	9.68	8.17	49.38	203.41
6. Chicago, Illinois	14.33	4.75	9.83	3.83	9.83	9.08	51.67	300.20
7. New Orleans, Louisiana	16.25	5.17	10.17	4.33	9.17	7.67	52.76	210.75
8. San Francisco, California	17.00	4.83	6.00	4.50	8.83	12.00	53.16	381.23
9. Boston, Massachusetts	14.67	5.34	12.78	4.36	11.11	10.25	58.51	361.97
10. Atlanta, Georgia	14.00	4.66	10.16	4.87	15.20	10.67	59.56	208.32
11. Honolulu, Hawaii	18.33	6.00	11.50	4.00	10.67	9.42	59.92	322.42
12. Los Angeles, California	17.33	6.75	10.75	4.17	10.67	11.00	60.67	277.97
13. Washington, D.C.	19.00	5.00	7.33	7.33	9.33	13.67	61.66	268.48
14. New York City, New York	24.15	3.93	7.13	3.86	16.76	12.00	67.83	363.74
15. Las Vegas, Nevada	16.67	6.67	12.00	5.33	12.67	14.67	68.01	139.51

Source: http://www.tripadvisor.com/PressCenter-i6645-c1-Press_Releases.html

a 24-hour room service; customers could order caviar and lobster at 4 AM if they were so inclined.² Today, room service has become a standard at most luxury rated hotels; Smith Travel Research estimates that about half of America's 51,214 hotels offer some variation of room service. A report released by the American Hotel and Lodging Association stated that about 40% of all hotel guests travel on business and that these customers (as opposed to those traveling for leisure) are the most frequent users of room service.³

I visited the Waldorf Astoria in 2014 and asked their food & beverage (F&B) manager for his views about their room service operations. Ironically, while it was a concept "invented" at the Waldorf and the luxury-conscious guests expect the Waldorf to offer room service, the current business model is under strain and management is challenged to seek a solution that meets guest expectations yet remains profitable. Robert Mandelbaum, director of information services for PKF Hospitality Research, says room service only accounts for 1% of the typical hotel's revenue. In addition, room service is on a decline: In 2007, average annual revenue per room was \$1,150; today, it's only \$866—about

\$2.37 in room service charges per room per day. While the number of hotel guests per occupied room has risen in the last six years, room service use has fallen off 25%.^{4,5}

In 2014, TripAdvisor, the world's largest travel site, announced the results of TripIndex Room Service, a cost comparison of common incidental items and services that many travelers will encounter when staying in a hotel. Based on a review of Table 1, the study revealed that Las Vegas is the priciest U.S. city for room service at an average of \$68, while Denver is the least expensive with an average of \$41.

Results of their study revealed the following salient facts:

1. Nearly 40% of travelers report ordering room service in the past year, but only 13% use the minibar.
2. Travelers can expect to spend about 22% more in the United States for these common incidental hotel costs than in popular cities around the world.
3. \$55 is the average total cost for room service in U.S. cities, \$3 more expensive than in 2013.

²"Westin History". Starwood Hotels. Retrieved 2007-12-28.

³<http://www.strglobal.com/>

⁴<http://www.cnbc.com/id/100799698>

⁵<http://www.bizjournals.com/bizjournals/blog/seat2B/2013/07/room-service-part-of-hotel-adaption.html?page=all>

4. \$45 is the average TripIndex Room Service total cost for international cities, representing no change from 2013.

The survey (Table 1) also revealed that there is no directly observable relationship between a hotel's average room rate and price of room service. For instance, although the average room rate in Las Vegas, based on the index, was \$140, it had the highest prices for room service. On the other hand, San Francisco has the highest average room rate (\$381) but ranked number 8 in terms of room service prices. This indicates that the guests' willingness to pay and hotel's ability to charge more for room service may be a function of travel intention (business, leisure, entertainment), time constraints, and domestic versus international travelers. As such, hotels have the ability to exercise price discrimination premiums in these situations.

Given the rising price of room service, increasing fixed and variable costs associated with the service, and changing amenities and features valued by guests, current hotel owners and managers are debating the rationale for maintaining the traditional 24/7 model of room service. In the words of Jacob Tomskey, a travel critic, *"The money has never made sense. The cost of keeping a kitchen active through the night, of paying the attendants to stay awake and caffeinated, has never been covered by the three drunk guests who order fries at 4 AM."*⁶

In fact, hotels are starting to pay attention and experiment with alternatives to room service. In August 2013, the New York Hilton Midtown, in the heart of Manhattan, discontinued food and drink service to all 2,000 of its rooms. In its place will be a new self-service Herb N' Kitchen stocked with grab-and-go items. A spokesperson for the hotel, which is part of the chain that also operates the Waldorf Astoria, cited declining demand for room service as the reason; some hotel industry experts see the elimination of the labor-

intensive amenity as a way for the chain to save money.⁷

Though Omni Hotels executive David Morgan says he "doesn't see room service going away any time in the near future," there is definitely a potential for change in the operating model. Several other large hotels have made efforts to modify menus and cut standby hours; many newer hotels opening now have discontinued room service and adopted new technologies.⁸

While traditionally hotels are slow to change, they do adapt their service offerings to guest preferences. For example, leading hotel chains have incorporated new technology to improve the check-in experience with innovations such as keyless entry and mobile check-in to replace the front desk. We expect that hotels confronted with rising labor costs due to the passage of higher minimum wage legislation in various states will adapt room service offerings through a combination of using innovative technology and better utilization of hotel square footage, experimenting with trendier food offerings, delivery options, and strategic partnerships in the near future.

Based on the research conducted for this paper, the following trends were identified with regard to alternatives to room service in hotels.

- **Shorter delivery hours:** Luxury hotels and resorts may still keep 24/7 room service, but many other properties are reducing hours as a way to cut costs. Another way to reduce expense is to have a separate F&B preparation area for room service purpose; this will reduce the expense from operating the full kitchen.
- **Simpler presentations:** Instead of full-service flatware and silverware, many hotels have converted to a "brown bag" approach. Their room service is delivered in disposable containers similar to the

⁶<http://www.nytimes.com/2013/06/10/opinion/a-farewell-to-hotel-room-service.html>

⁷<http://www.nytimes.com/2013/06/03/nyregion/room-service-is-vanishing-from-a-big-hotel.html>

⁸http://www.huffingtonpost.com/2013/06/20/the-end-of-room-service-_n_3467270.html

packaging used by restaurants that offer takeout and delivery. Guests (especially the millennial generation) are usually amenable to that, because it is not something new, they already experience this in upscale restaurants, and also, this is a sign of the hotel's dedication to recycling and environment sustainability.

- **Breakfast in the house:** The busiest time for room service at most hotels is breakfast. One way to ease the morning room service rush hour is to give away breakfast in the hotel restaurant or in a special area reserved for a buffet. According to the American Hotel & Lodging Association, 79% of U.S. lodgings offered some form of complimentary breakfast in 2012, up from just 55% in 2010.
- **24/7 on-site markets:** Another way to reduce customer complaints about room service while increasing F&B revenue is the 24/7 "grab-and-go" market being introduced by several of the newer and trendier hotels. For example, Hyatt Place and citizenM in Europe are being built with 24/7 food markets in their lobbies. And the concept is growing because travelers are already comfortable with the idea of buying prepared food in their everyday lives. "The grab-and-go concept is really growing," says Williams of Swire.⁹ Many hotels near convention centers have already replaced their room service with the food market. Furthermore, by adding healthy choices (such as organic or low sugar) to the food selection, hotels are aligned with guests with a wellness mindset in addition to a price premium on their products.

- **Linking with off-premise restaurants:** A strategic delivery partner is also a choice for several hotels, especially in urban locations. With the right mix of partners, hotels could provide broader food choices to their guests and at the same time work out a delivery fee with these delivery partners to capture part of the revenue.
- **Embrace the technology:** Food delivery services such as Seamless.com, GrubHub.com, Delivery.com, Foodler.com, and Eat24.com are so convenient that they even take less time than reading the room service menu. "Why would you order from a limited room service menu when you can surf the net or tap a phone app and have food from any number of restaurants sent right to your door?" asks the general manager of a hotel in a major metropolitan area.

CONCLUSION

In 2012, Smith Travel Research reported that the average F&B profit ratio for full-service hotels was 25.9%. However, those with significant room service operations reported F&B profits of 17.9%.¹⁰ While hotels are challenged with the profitability of room service, hotels in the luxury to upscale segment are challenged because of the perception of minimum service expectation and for some seeking to maintain their star and diamond rating. However, as the article illustrates, a trend is underway to look at alternatives to room service without compromising the service quality experience for guests.

⁹<http://www.swirehotels.com/en/Who-We-Are/Our-People/Our-Management.aspx>

¹⁰<http://www.hotelnewsnow.com/article/13455/In-room-dining-effect-on-profitability>