

HOTEL AND LODGING OPERATIONS

Courtesy Wyndham Hotel Group.



THE PURPOSE OF THIS CHAPTER

It is impossible to teach someone how to run a hotel solely from a book. Only practical experience can teach a subject so complex. This chapter is intended, however, to help you learn more quickly from experience by familiarizing you with (1) the major operating and staff departments in a hotel, (2) the information flows that tie a hotel together and how they are handled, and (3) the patterns of income and cost that affect hotel operations. Finally, this chapter outlines the major hospitality career entry points and the paths available for advancement.

THIS CHAPTER SHOULD HELP YOU

1. Name the major functional departments in a hotel, and explain the relationships that exist among them.
2. Understand the various roles required in the front office as well as the importance of yield management.
3. Explain why the food and beverage department, although not the principal source of profit, can be very important to a hotel's success.
4. Identify a hotel's support departments and the importance they play in daily operations.
5. List the principal sources of income and expense by department according to the uniform system of accounts for hotels.
6. Outline a potential career path that leads to filling the role of general manager.

MAJOR FUNCTIONAL DEPARTMENTS

Hotel properties range in size from small to huge. Although large properties such as the Hilton Chicago Hotel or the Tower Suites at Wynn Las Vegas catch the public's imagination, the majority of properties in the United States have under 300 rooms. Because most students will gain their work experience in this kind of property, the examples in this chapter assume a hotel in the 100- to 300-rooms range.

Surprisingly enough, most properties perform basically the same functions, but the way in which they accomplish them varies with the property size. When there are significant variations in routine practices in larger properties, we note them. Our emphasis, however, is on the similarities found throughout the commonly found hotel business rather than on the variations.

Figure 10.1 shows the basic functional areas of a typical hotel. This figure includes elements not found in some operations, as some hotels lack food and beverage departments and many do not have a gift shop or garage. Our purpose, however, is not to draw a chart that represents all properties inclusively; that would be impossible. Rather, we have outlined the major activities usually present in most properties.

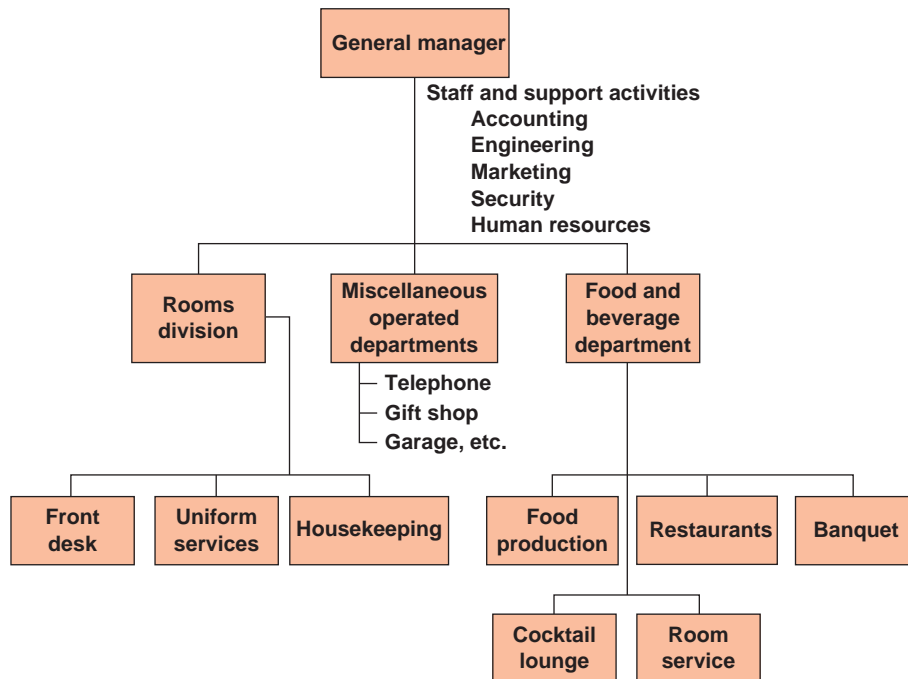


Figure 10.1

Major functional areas found in hotels.

A large property may employ a general manager, under whom a hotel manager or resident manager assumes responsibility for day-to-day operations. There is often a rooms director who supervises the departments that make up the rooms division, and a food and beverage director who oversees the departments in that division. Other key members of the management team or executive committee of a large hotel include a director of sales and marketing, controller, director of human resources, and the chief engineer. Many hotels also include the executive chef, executive housekeeper, and director of catering as part of the management team.

In the 100-unit inn diagrammed in Figure 10.2, the general manager may be responsible—with an executive housekeeper and perhaps a front-office manager or supervisor—for running the **rooms departments** and for supervising an assistant manager responsible for food and beverage if the property contains a restaurant. At one extreme, in the small property, the executive staff may consist of two or three persons supported by a few department heads or supervisors and key employees. A large property, however, requires a complex organization with several layers of authority.

It is important to note that a smaller property may have functional areas (e.g., food production, beverage department or bar, dining room, stewarding [dish room, pot washing, cleanup], and receiving in the food and beverage area) but no true department heads. The restaurant in a small inn may be run by a restaurant manager who directly supervises all the employees with help from lead employees in each functional area on each shift. For instance, the hosts or hostesses for the day and evening shifts

Hotels perform essentially the same functions, no matter their size. However, size does influence how certain functions are carried out. (Courtesy of Cendant Corp.)



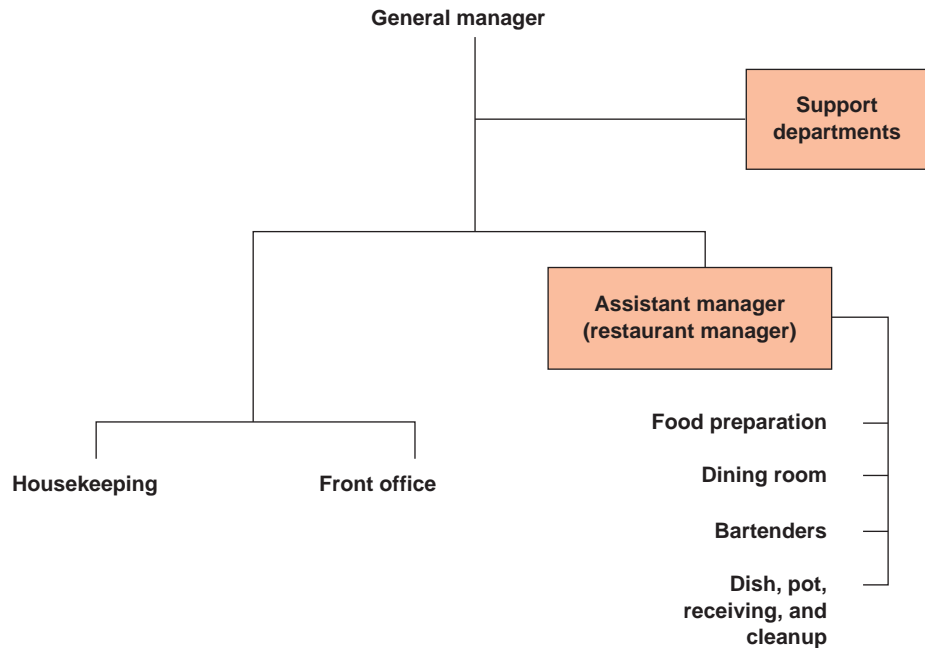


Figure 10.2

Functional operational chart for a small hotel.

may provide leadership to the dining room staff during their shifts; a head cook on each shift does the same for the kitchen staff. The manager may be responsible for both shifts, usually along with someone designated as an assistant when the manager is off duty. This arrangement is economical and convenient in small properties as long as the restaurant manager delegates enough responsibility to avoid becoming overcommitted.

THE ROOMS SIDE OF THE HOUSE

Room rental is a hotel's main business and its major source of profit. In larger hotels, the day-to-day operation of the typical rooms division yields departmental income (the revenue remaining after the direct operating costs of the departments in the division) of 70 percent or more, compared with 15 to 20 percent for the food and beverage department. Thus, the people on the rooms side of the house are crucial to the operation's financial success.



Lobbies, like the one at this Microtel Inn & Suites®, are important in creating first impressions. (Courtesy Wyndham Hotel Group.)

THE FRONT OFFICE

More than any other group, the front-desk employees represent the hotel to its guests. There are various position titles for the employees who check guests in and out of the hotel. Some hotels refer to these employees as front-desk receptionists while others call them front-desk agents or clerks. The front-desk receptionists have an integral role in determining guests' first impressions and last impressions of the hotel property. The attentive, warm greeting of a front-desk receptionist can have a tremendous impact in making guests feel welcomed. If something goes wrong, most guests will complain first to the front desk. When the guests leave, the desk clerks check them out. If anything has gone wrong, this will be a good time to catch it (“How was your stay with us?”—and then listen to the answer). Although the duties of the desk differ somewhat by shift, they also overlap, to an extent.

In the following discussion, a small hotel serves as a model. Our purpose is to describe the work of the **front office** and its functions. Your own observations will illustrate the variety of ways in which the work is organized.

The morning clerk typically works from 6:45 A.M. to 3:15 P.M. With a half-hour meal break, this is an eight-hour day. Because the evening crew comes in at 2:45 P.M. and the night auditor goes off duty at 7:15 A.M., all shifts overlap so as to ensure a smooth transition. Some properties maintain a logbook in which information or events with which later shifts should be familiar are noted. This logbook could also take the form of an automated database of information from shift to shift. The new shift's first task upon coming on duty is to check the logbook to make sure everyone is fully briefed.

The morning shift's work is concentrated in the early hours (from around 7:30 A.M. until midmorning) on checking out guests. At the same time, of course, the employees on this shift answer guests' questions and perform other routine tasks. Most hotel properties require checkout by a certain time, typically by 10 A.M. to 11 A.M., to facilitate cleaning and preparing the room for the next guest's arrival. A guest may request a later checkout time through the front office with approval typically depending on the number and estimated arrival of incoming guests.

When a guest is ready to leave, the clerk verifies the final amount of the bill, posts any recent charges, and assists the guest in settling with cash, check, debit card, or credit card, according to the house credit policy. This credit policy, which lays down guidelines for accepting checks and specifies the acceptable credit cards, is an important part of any clerk's training.

Although the technical aspects of the clerk's work are important, the courtesy a clerk accords a guest is of tremendous importance. A departing guest must have an opportunity to register complaints if he or she has had problems. The morning clerk's work thus includes a special responsibility for ensuring that guests leave with the intention of returning to the hotel on their next visit to town. Many hotel companies, recognizing the important role of front-desk employees in hearing guest comments and complaints, have empowered these employees to make necessary adjustments to guest charges or provide discounts to be used for future visits in order to maximize the number of return guests to any one property.

As guests check out and their rooms become vacant, housekeeping is notified. This permits housekeeping to make up the rooms promptly so that they will be ready when new guests check in later that day. As the rooms are cleaned, housekeeping notifies the desk so that early arrivals can be accommodated in rooms that are ready to rent. Alternatively, once rooms are clean, room status can be changed to "ready to rent" at housekeeping's computer terminal.

Most properties now have computerized reservation systems that keep track of the balance between rooms available and reservation requests. The morning clerk and her or

his supervisor, the front-office manager (or guest services manager), monitor this process and block any special reservation requests. In a property that does not have a computerized reservation system, the manager will block the day's reservations manually.

The afternoon clerk's work is shaped by the fact that the heaviest arrival time begins, in most hotels, in late afternoon around 4:00 P.M. The afternoon clerk, therefore, takes over the reservation planning begun by the morning clerk and greets the guests as they arrive.

First impressions are crucial, and the desk clerk's warm welcome often sets the tone for the guest's entire stay. By remembering the names of repeat visitors, meeting special demands when possible (such as requests for certain floors or room types), and bearing in mind that the guest has probably had a hard, tiring day of work and travel, the desk clerk can convey the feeling that the guest is among friends at last. The clerk checks in the guest, which establishes the accounting and other records necessary for the stay.

The **night auditor** is a desk clerk with special accounting responsibilities. When things quiet down (usually by 1:00 A.M.), the auditor posts those charges not posted by the earlier shifts, including (most especially) the room charge. He or she then audits the day's guest transactions and verifies the total balance due the hotel from guests as of the close of the day's operations. The **auditing process** can be quite complicated, but, simply stated, the auditor compares the balance owed to the hotel at the end of yesterday with today's balance. He or she verifies that the balance is the correct result of deducting all payments from yesterday's balance and adding all of today's charges. This process, summarized graphically in Figure 10.3, not only verifies today's closing balance of guest accounts owed to the hotel but also systematically reviews all transactions when an error in the balance is found. For this reason, the night auditor's job is important, requiring intelligence, training, and integrity. In most properties, even smaller ones, the night audit process is automated but still requires individuals to oversee the computerized processes and reports.

AUTOMATION OF THE FRONT OFFICE

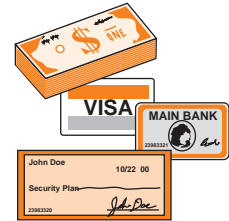
Although the main elements of personal service—a smile, a friendly greeting, and courteous treatment of the guest—cannot readily be automated, much of the clerical work has been greatly simplified in most hotels by the installation of a **property management system (PMS)**. The PMS improves operational efficiency by eliminating repetitive tasks and improves service by providing information more quickly and accurately. At the same time, the PMS improves operational control. We need to understand the PMS in order to see how the front office functions.

The computer program (or programs) that make up the PMS prompts the clerk to follow an appropriate work sequence for every task. For instance, when a guest checks in to the hotel, the clerk begins by “telling” the computer whether the guest has

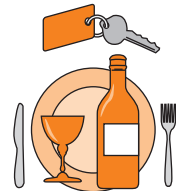
ADD:
Yesterday's closing balance of accounts owed by +
guests to the hotel



Less:
Payments received today against accounts –
(say \$4,340.97)



PLUS:
All charges made today to hotel or guest accounts +
(say \$17,614.86)



EQUALS:
Today's closing balance of accounts owed by guests =
to the hotel



Figure 10.3

A schematic view of the night audit process.

a reservation or not. If the guest has a reservation, the clerk need only type in the name, and the computer retrieves the reservation and automatically prints out the necessary records. In most cases, the guest is simply asked to sign his or her name and perhaps verifies the credit card listed in the guest information. If the guest doesn't have a reservation, the clerk gets the necessary information, following the format on the front-desk computer screen (depicted in Figure 10.4), and enters it.

| GUEST INFORMATION | ROOM DESIGNATION |
|---|---------------------------|
| NAME: Tom Farmer | ROOM TYPE: DbI |
| PHONE: 612-999-1212 | RACK RATE: 186.00 |
| ADDRESS: 6199 Thorton Blvd | FOLIO RATE: 170.00 |
| Minneapolis, MN | # NIGHTS: 2 |
| SPECIAL REQUEST: Crib | EXTRAS: Crib-NC |
| MARKET: 12-15B | |
| CREDIT: | |
| CREDIT CARD: Diners Club #99552211887712 | |
| Exp. 9/1/11 | |
| FOLIO LIMIT: \$500 | |
| Guest Walk-In Display | |
| (1) Room Info (2) Guest Info (3) Additional Info | |
| (4) Post Charge or Credit (5) Change or Update | |
| (6) Check In | |
| 02 27 15:07 | |

Figure 10.4

The walk-in registration screen. Note the menu across the bottom of the screen that prompts the clerk as to the choices of activity appropriate to dealing with a walk-in.

When the guest checks out, the computer once again presents a screen with prompts (note the menu at the bottom of the screen in Figure 10.5) that will help the clerk to move through the appropriate sequence, verifying the balance with the guest, posting any late charges, and accepting payment by credit card or cash or by billing the account directly if prior arrangements have been made. Figure 10.5 shows the screen the clerk sees when checking out Mr. Farmer. An increasing number of hotels provide guests with the option of an automated checkout system utilizing the telephone or television in the guest room through which guests can access their account and approve the ending balance. Hotels may also deliver a hard copy of a guest's folio during the night prior to checkout. The folio, which lists all guest charges and the predetermined method of payment indicated at check-in, is quietly slipped under the guest room door, typically in the early morning hours. If there are no changes, the guest can indicate so through the automated system and save time in leaving the hotel. It should also be mentioned that a number of hotel chains are testing the option of automated check-in for guests. Typically involving a lobby kiosk, the guest interfaces with a computerized system that prompts

| GUEST INFORMATION | ROOM DESIGNATION |
|--|---------------------------|
| NAME: Tom Farmer | ROOM TYPE: Db1 |
| PHONE: 612-999-1212 | RACK RATE: 186.00 |
| ADDRESS: 6199 Thorton Blvd | FOLIO RATE: 170.00 |
| Minneapolis, MN | # NIGHTS: 2 |
| SPECIAL REQUEST: Crib | EXTRAS: Crib-NC |
| MARKET: 12-15B | |
| CREDIT: | |
| CREDIT CARD: Diners Club #99552211887712 | |
| Exp. 9/1/11 | |
| FOLIO LIMIT: \$500 BAL 270.13 | |
| Guest Check Out Display | |
| (1) View Folio (2) Posting (3) Transfer (4) Payment | |
| (5) Check Out (6) Print Folio | |
| 02 29 11:42 | |

Figure 10.5

The checkout screen.

him or her through the registration process. Even more advanced is the option for an incoming guest to preregister online. Issued with a hotel smart card, such as a loyalty card, and Internet access, once a guest has preregistered, the hotel can preprogram the allocated room lock with check-in and checkout time information. The system allows guests to use their cards to enter the hotel through special entranceways and gain elevator access to the specific guest floor. Although it is believed that there will always be a need for personal service for guests desiring the human interaction with a front-desk receptionist, the automated alternative is similar to airlines now providing automated check-in for passengers who prefer to save time and forgo the pleasantries.

Where the front-desk computer is interfaced (i.e., electronically interconnected) to other systems, such as restaurant and bar point-of-sale (POS) terminals and a house-keeping department terminal, front-office clerical routines are further simplified. When guests settle a dinner or bar check by charging it to their room number, the cashier in the food or beverage outlet posts this entry on his or her POS terminal, and that posting is automatically entered on the guest's bill at the front-office terminal. Some hotels also feature automated billing with the in-room mini bar. Once an item is removed from the mini bar, the charge is automatically posted to the guest's account. These systems ensure that all charges will be posted to the guest's bill immediately. Manual posting is

required for any charges that are not automatically handled by the system. In properties that do not have departments such as food and beverage interfaced to the front-office system, those charges are also posted manually. This is more time-consuming for both departments and is also likely to lead to more mistakes.

In much the same way, when housekeeping is interfaced, at the time the guest checks out, the room shows up as “vacant and dirty” on the housekeeping terminal, indicating that the room needs to be cleaned. When housekeeping personnel have cleaned the room, they make the appropriate entry and the room is automatically added to the ready-to-rent total in the front-office terminal. Where housekeeping is not interfaced, lists of “on change” and “ready-to-rent” rooms are usually communicated back and forth by phone.

Most chain or franchised properties interface their front office not only with other departments but also with their group’s central reservation system (CRS). This method permits the CRS to determine room availability directly and automatically from the individual property. This is an important time-saver for front-office staff and helps maximize the usefulness of the CRS to the individual property. The PMS can also be used to automate and integrate a number of other functions in the hotel, as shown in Figure 10.6.

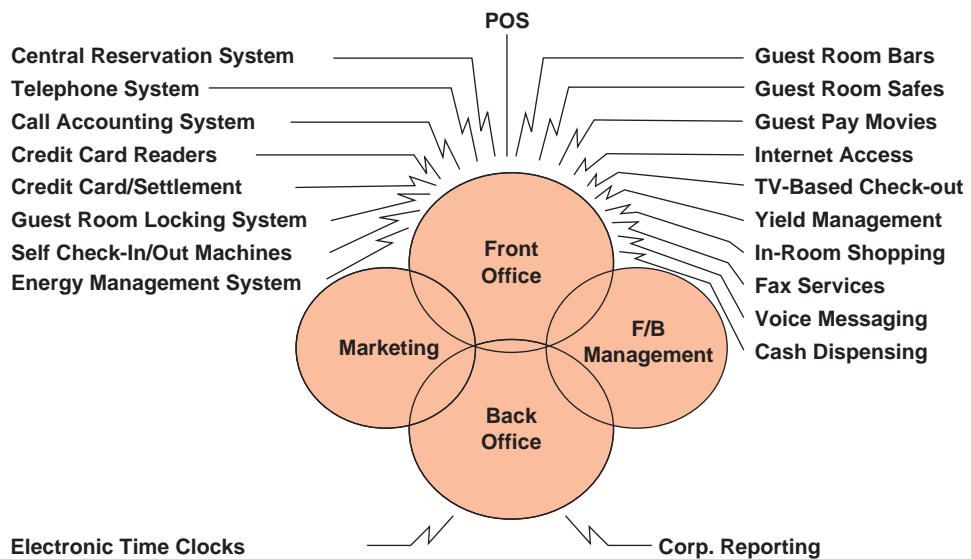


Figure 10.6

Hotel property management system interfaces. (Source: Chervenak, Keane and Company.)

RESERVATIONS AND YIELD MANAGEMENT

Traditionally, the hotel industry has looked at occupancy as a measure of success. Another indicator of operational success that we have always consulted is the **average rate** per rented room (the average daily rate, or ADR). **Yield management** puts these two together and, using forecasting based on the history of past sales, sets out to get the best combination of occupancy and ADR.¹ Yield management, then, involves varying room rates according to the demand for rooms in any given time period. The argument is that when the hotel is going to be full, it makes no sense to sell any rooms at special discount rates. On a night when the hotel is definitely not going to fill, however, selling a room at a discounted price is better than not selling it at all.

Going beyond maximizing rates, hotels are using yield management to take more multiple-night (instead of single-night) reservations during busy periods on the theory that a multiple-night reservation offers less risk of having a vacant room following checkout and thus is worth more to the hotel. A potential guest, therefore, inquiring about room availability for a large event such as the Super Bowl may find that the hotel requires a minimum stay of two to three nights for this high-demand weekend. As with so much in hotel operations, careful employee training is essential to secure an effective yield management system that is operated in a way that will generate maximum revenue but not offend guests. Yield management is discussed further in Chapter 12.

Yield management has been used in a number of other industries, most widely in the airline industry. It can be used by any industry that experiences fluctuating demand, which includes most segments of the hospitality industry. As will be discussed in Chapter 12, the extraordinary growth of individuals using the Internet in booking hotel reservations and other travel arrangements, such as airline reservations, has had a tremendous impact on the marketing and pricing of hotel rooms in all price and size ranges of properties.

HOUSEKEEPING

An essential requirement, for both business and leisure travelers staying in limited-service or luxury properties, is that the guest room be clean. The essential department of **housekeeping** is as much a production department of a hotel as the front desk and bell staff are service departments. It is clear that without clean rooms to rent, a hotel cannot operate. Understanding how important a housekeeping department is to the proper functioning of a hotel, the management should always pay close attention to morale factors, such as pay and worker recognition in that department. Because of the physical demands in cleaning between, on average, 16 to 18 rooms per day per housekeeper, safe and injury-free working conditions are also a priority in this department.

The housekeeping department is usually headed by an executive housekeeper. In a smaller property, this role may be held by a housekeeping supervisor. In larger properties, the executive housekeeper will have at least one assistant and several supervisors, generally known as inspectors, who supervise room attendants in designated areas. As hotels have flattened their organizational structures and empowered hourly employees, many properties have substantially reduced the number and role of inspectors, giving housekeepers the responsibility of inspecting their own rooms utilizing a checklist of cleanliness requirements.

The housekeeping department also plays a significant role in purchasing guest room supplies, including linens, and guest room amenities. Guest room amenities may range from bars of soap to a full array of toiletries including shampoo, conditioner, body lotion, sewing kits, and shoe-polishing cloths. Typically, the more extensive array of guest room amenities would be found in full-service and luxury properties. The housekeeping department also purchases equipment necessary to keep the hotel clean, such as vacuum cleaners, carpet-care machines, and floor buffers. In addition, to be able to do their jobs properly, housekeeping employees require numerous chemicals, which must be inventoried. These cleaning products include everything from porcelain cleaners for the bathroom to glass cleaners, furniture polish, and carpet shampoos.

The housekeeping department plays a key role in keeping guest rooms looking clean and attractive. (Courtesy of Caesars Atlantic City.)



Housekeeping

Guest room cleanliness, regardless of the type or segment of hotel property, consistently rates of highest importance to guests. Hotel housekeeping departments are challenged with doing a thorough job of cleaning each guest room while also doing it efficiently—particularly in maximizing speed and productivity. Hyatt Hotels implemented a new approach in 79 hotels across the country aimed at more efficient and targeted housekeeping. The program, called the “Housekeeping Stay-Over Program,” eliminated redundant cleaning tasks in stay-over rooms, which allows housekeepers to focus on what matters most to those guests staying multiple nights at a Hyatt. The program was initiated by a survey of guests conducted by Hyatt. Guests stated that when first checking in to a hotel, they are most concerned about having a room that is thoroughly and properly prepared. After that, refreshing the room meets their expectations. Hyatt, as with most hotels, was having housekeepers go through the same cleaning process with each and every room, regardless of the room’s status—check-in or stay over. Eliminating the redundant tasks reduced the cleaning time in a stay-over room from about 24 minutes (the average time of cleaning a room) to 15 minutes.

Other hotels have implemented similar changes. The Adam’s Mark Hotel in St. Louis, Missouri, has a “Just Like Home” program. Bed sheets are changed every three days for stay-overs, unless the guest requests otherwise.

Another approach tried by some hotels is team-cleaning as compared to each housekeeper having his or her own rooms. Proponents of this approach claim that there is greater productivity in addition to reduced equipment costs. For example, instead of having a vacuum cleaner for each housekeeper, there can be one per team.

Source: Rob Heyman, “Cleaner Pastures—Shaping Up Hotel Housekeeping Programs,” *Lodging Magazine*, October, 2006.

In most hotels, housepersons or main or maintenance workers take responsibility for cleaning the halls and public areas (lobby, elevator lobbies, ballrooms, meeting rooms). These employees also play a vital role in maintaining high cleanliness standards for a hotel.

Hotels with their own laundries often assign the supervision of that area to the housekeeping department. Generally, a working laundry supervisor or lead worker handles routine supervision under the executive housekeeper’s general direction. In larger hotels, a laundry manager may well be warranted. Industry Practice Note 10.1 discusses what some hotels are doing to maximize hotel room cleanliness.

TELECOMMUNICATIONS

Because the system of accounting for hotels recognizes telephone activity as a separate department for revenue purposes, one often hears about the telephone department.

Today, hotels have broadened the title of this department to **telecommunications** to reflect not only revenue generated through guest room telephone use and public area phones but also Internet connection services and faxes sent and/or received by guests. Only in the largest hotels, however, is there really a separate organizational unit to match this designation, whether it is called the telephone or telecommunications department, and in such hotels it is headed by a manager sometimes referred to as a communications manager or (going back several years) a Private Branch Exchange (PBX) manager. The telephone service in smaller properties is handled by a person who also serves as a front-desk clerk. Many smaller properties, particularly those with 100 rooms or fewer and with automatic phone systems, often require the desk clerks to operate the phone system as part of their regular duties.

The increasing availability of voice mail and automated systems in hotels has expanded the services provided to guests—and, increasingly, expected by them. It is now common to provide voice mail in each guest room. In addition to improving the level of service available in the hotel, this has the effect of reducing staffing requirements to take and deliver guest messages. Automated voice-mail systems also minimize the translation needs seen with growing numbers of international travelers.

The prevalent use of cellular telephones has certainly had a detrimental impact on hotel telephone revenue. Hotel telephone rates typically have been a source of guest complaints, and now most guests have a very accessible alternative in using their own cellular phones to bypass in-room telephone options. This finding is underscored by reports that revenue from phone calls dropped every year from 2000 through 2010. Facing these revenue declines, many hotels have increased surcharges for telephone calls made from the hotel guest room. Some hotels allow local calls at no cost, while others charge anywhere from 50 cents to \$1.00 or more for a local call. For long-distance calls, guests may pay a connection fee of about \$1.50 and per-minute charges ranging from \$1.00 upward. Hotel operators justify such charges as necessary to cover the costs of the telephone departments, including salaries and equipment. Although there are no regulations regarding what hotels can charge for direct-dialed calls, hotels are required to make information about telephone rates readily available to guests. Most hotels place rate cards next to the room telephones. Some hotels, too, are using fees for Internet access to replace the traditional revenue stream from phone calls while others see an opportunity in luring more guests with free Internet access. Combined with disgruntled guests who want to avoid hotel surcharges for telephone use, the revenue stream from telecommunications will continue to spiral downward.²

Not only do guests want to have an array of business services available through the hotel guest room; today's traveler expects in-room entertainment. The concept of in-room entertainment has expanded significantly in the last 20 years. Before the 1990s, having a few television networks with decent reception met or exceeded the expectations of

most hotel guests. Today, with individuals accustomed to satellite dishes or expanded cable networks at home, the traveler expects the same while away from home. In addition to wireless High Speed Internet Access, technology has provided the capabilities to provide on-demand TV, video, audio, and an assortment of in-room games. Perceived by guests as services provided by the hotel, these entertainment options may be the solution to increased guest room revenue opportunities to offset the decline in telecommunications.

UNIFORMED SERVICES STAFF

Uniformed staff members who perform personal services for the guests are part of the rooms division. These include the **bell staff**, concierge, security, valet, and garage. Of course, the property classification, size, and location determine whether there is a need for these positions. We discuss the bell staff next. Industry Practice Note 10.2 discusses the concierge.

THE BELL STAFF. Most limited-service hotels do not provide a bell staff because most of their guests prefer to room themselves. However, the bell staff plays an important role in the larger and more luxurious hotels. The process of rooming a guest includes more than just carrying luggage and showing a guest to a room. Rather, it begins when the front-desk receptionist assigns a room. At this point, a member of the bell staff takes charge, welcoming the guest in both word and manner. While escorting the guest to his or her room, the bell attendant has an excellent opportunity to acquaint the guest with the services and features of the hotel. Such information may include brief details about the food and beverage outlets in the hotel as well as the available recreational amenities, such as a swimming pool and fitness center and hours of operation. On entering the room, the bell attendant can provide a great service in demonstrating the room's operations and features. He or she can show the guest how to operate the air-conditioning or heating and turn on room and bath lights.

THE VALET/GARAGE. As guests drive up to a hotel property, arriving in the motor lobby or porte-cochere (a covered entranceway), another important first impression is the valet who will be parking the guest's car. Many hotels outsource the valet parking operation to companies that specialize in the business of parking and retrieving guest cars. There are many liability issues associated with valet parking in any type of business. Cars are expensive commodities to be replaced or repaired. In addition, there are safety issues in employees driving the vehicles of others. For these reasons, it is not uncommon to find that the valet parkers are actually employees of a parking service that the hotel pays to run its valet operation. Many hotels offer valet parking in

The Concierge

In luxury hotels, the concierge offers the guests important services, including giving directions to local attractions, securing tickets to shows, and recommending local restaurants, tours, and other entertainment. The concierge knows about local transportation, tour schedules, and nearly any other information a tourist might want. The concierge, at one time more common in Europe, is increasingly being found in North American hotels as well as around the world. Conversations with a concierge at most any hotel will reveal stories of their most memorable requests, not all of which they were able to accommodate. Most requests are relatively common in nature, however, and restaurant reservations are among the most frequently encountered.

The professional organization for hotel concierges is known as Les Clefs d'Or (keys of gold). This international association of men and women concierges first formed in 1929 when 11 concierges from the grand hotels of France realized that they could operate more effectively as a group. Additional chapters of Les Clefs d'Or followed around the world. In April 1952, delegates from nine countries gathered in Cannes to hold the first congress. The goal of Les Clefs d'Or is to help improve the quality of service provided by concierges in their hotels and to ensure that the profession is given the recognition it deserves. The association encourages friendship and solidarity among its members and also teaches them to continually improve their professional skills. If you meet a hotel concierge wearing the association's "golden keys" pin on his or her lapel, you will know that this experienced concierge has achieved this recognition through Les Clefs d'Or.

For more information on Les Clefs d'Or, visit www.lcdusa.org. This Web site for Les Clefs d'Or USA provides interesting links, such as "Concierge Characteristics," "Facts and Figures," and "Historical Perspective."

addition to the option of self-parking in the hotel's garage or parking area. If the hotel does not own a garage or parking lot, it may arrange with a nearby garage for guest parking. Comprehensive legal agreements with clearly specified indemnity arrangements in the event of car theft, loss, or damage are of utmost importance in working with valet operations. It is also important that the valet/garage operations adhere to the service standards of the hotel. Even if the valet/garage services are outsourced, for seamless service, these operations must provide a quality experience for guests.

GIFT SHOP/RETAIL OPERATIONS. Hotels are increasingly finding a new revenue stream through retail store operations, sometimes in conjunction with an online ordering option. Providing much more than the typical sundry or gift shop, hotels are finding consumers who want to buy everything from high-end bed linen and luxury mattresses

to the best in bathrobes and spa products. The W Hotel in Union Square, Los Angeles, offers for sale almost anything in the hotel. The Charles Hotel in Cambridge, Massachusetts, will sell artwork to guests—even pieces hanging in the hotel. A number of hotels have received added publicity from celebrities who have publicized the hotels at which they prefer to shop.³

SECURITY

In a hotel of any size, *security* is a major concern. In a large hotel, security may be a department, but no matter what its organizational status, security has become the focus of top management's attention.⁴ Security came forcefully to the attention of hotel operators in 1976 when a well-known singer, Connie Francis, was raped at knifepoint in a Long Island motel. That such a terrible event could happen in a lodging property was enough to gain management's attention—but the \$2.5 million awarded to the victim by the jury underscored that concern. The door in her room appeared to be locked but could be opened. In fact, security practices in many hotels had become lax. The jury found that the motel had not exercised *reasonable care*. The question of reasonable care has been a continuing concern for operators since the Francis case. In recent years, bad publicity on television, in the newspapers, and in various blogs has heightened hotel managers' attention to this problem.

In a survey of over 42,000 U.S. hotels conducted in 2006 by the American Hotel & Lodging Association and *Smith Travel Research*, it was found that hoteliers are increasingly improving critical aspects of hotel security. Many of these improvements were the result of a new generation of hotels now in operation as well as renovations that have incorporated security features. The survey found an increase in the use of closed-circuit cameras (CCTV), enhanced interior and exterior lighting, and greater access control through card readers including vehicle access to garages and parking areas.⁵

Many hotel chains have increased security with the elevated terror government-issued alerts. One example, Starwood Hotels & Resorts, parent of the Sheraton, Westin, and W chains, follows this system. Measures include increased security at entrances, loading docks, and in hotel garages and more scrutiny of unattended bags and cars. Armed guards are stationed at some properties. At the highest alert level, hotels in the company typically will not store luggage. In some areas of the world where terrorism is a more prevalent threat, such as the Middle East, hotels have installed metal detectors at entrances as standard equipment. In Israel, the government has made gas masks available free or for a discount to guests.⁶

Most hotel guests today do not get alarmed by security measures taken by hotels. In fact, most would perceive a strong positive relationship between good service and good security. As hotels strive to provide high-level, comprehensive security, technical

components as well as management components must be addressed. Addressing both is necessary to reach a solution.

TECHNICAL PROBLEMS IN SECURITY. The largest technical commitment on the part of hotel operators has been the replacement of the metal key with electronic or card-based locks, a practice that is now being mandated by many franchise systems. A new combination is electronically or mechanically encoded on the key card with each guest registration. The card contains a magnetic strip that allows it to work. (This is why these systems were originally referred to as “**magstrip**” systems.) The lock in the guest room door is reset electronically by the first entry of the electronic or card key. In the case of an online system, the door is reset from the front desk at the time of registration. Where installation of new key systems is not economically feasible, removal of room numbers from the keys, to be replaced by coded letter or number identification systems, is a minimum requirement. The guest room key and lock are an obvious and essential first line of defense for the guest’s personal security. Hotels are beginning to move beyond the magstrip systems now, and many have introduced “smart card” technology, in which the same card that allows guests into their rooms also serves as a guest identification card and can be used for room charges. Contactless smart card technology, now available, does not even require that the key card be put into the lock. Instead, a guest with the smart card coded for that room can just approach the lock and the door opens.⁷ The industry is also rapidly moving toward the use of biometric locking systems that can recognize an individual’s fingerprint, for a guest to gain access to his or her room or to the in-room safe. A quick thumb scan avoids the use of any key or card.

MANAGERIAL PROBLEMS IN SECURITY. Management’s problem is not just to protect the guest; the question of high damage settlements must be considered too. A minimal approach to ensuring that a hotel has exercised reasonable care for the guest’s safety begins with a professional assessment, a broad overview of the hotel, and the security of its guests and their property. With this overview in hand, the hotel management can take the steps necessary to exercise reasonable care. Although increased technology as described above helps in offering more effective security options, the human element of having a sufficient number of well-trained security employees cannot be minimized. The mere presence of security equipment, whether electronic locks or CCTV systems, does not guarantee guests’ safety. Only trained staff members who know how to observe guest activities and respond appropriately should monitor the CCTV system. In addition, a written guide should provide specific instructions for various emergencies with detailed response information also covered in training. There is no substitute for well-trained security staff, in sufficient numbers, to implement a comprehensive, well-thought-out security plan that ultimately involves all hotel employees.⁸

In essence, every employee of a hotel is part of the security team by staying constantly aware of what is happening in every area of the hotel property, being observant of suspicious occurrences, and following a standardized reporting system in a timely fashion.

HOTEL FOOD AND BEVERAGE OPERATIONS

Originally, the hotel restaurant was designed to give a traveler in a strange city a place to eat where the food would be good, or at least palatable—and safe to eat. In recent years, however, the restaurant industry has grown in diversity of both concepts and menus. Moreover, that growth has meant the spread of restaurants into more and more locations, making restaurant food service readily available. Many successful chain restaurants carry well-known brand names to which travelers are accustomed. In the face of stiffening restaurant competition for the hotel guest's food and beverage patronage, some hoteliers have developed hotels, such as the economy and all-suite properties discussed in Chapter 9, that offer only very limited food service—usually a complimentary breakfast and, in some all-suite operations, complimentary hors d'oeuvres in the evening.

In full-service hotels, however, the food service operation continues to be not only a vital service but a key competitive weapon. Many full-service hotels have several quite different food outlets. For example, one urban full-service convention hotel offers a gourmet penthouse Russian restaurant, an authentic Polynesian restaurant, a more traditional three-meal restaurant, and a take-out service for guests needing food items on the go. All of these are in addition to the room service option. As noted in the previous chapter, room service department operating 24 hours a day is expected for five-star and five-diamond hotels.

Creative approaches in hotel food and beverage operations are not limited to varied theme restaurants within the hotel. For example, several Ritz-Carlton hotels (as well as others) feature a chef's table where four guests can eat in the kitchen and watch and interact with the chef during the preparation of a five-course meal.⁹

Offering several restaurant outlets extends the services available to the guest—and helps keep the guest's food business in the hotel. In a recent listing of *Forbes Travel Guide's* five-star restaurants in the United States, many are located in hotels. Renowned restaurants located in hotels have the added advantage of spotlighting the hotel's identity and bringing in out-of-town guests as well as local clientele who may, in turn, refer guests to the hotel.¹⁰

Many hotels in recent years have emphasized the **food and beverage department's** role as a profit center, that is, a specifically identified, profitable part of the hotel's



With a nod to the glory of Imperial Russia, Red Square Las Vegas at Mandalay Bay transports guests to a world of romance and intrigue. (Photo courtesy of MGM MIRAGE.)

operation. The typical hotel food and beverage department in the United States creates about half as much in dollar sales as does the rooms department but generally provides only between 10 and 20 percent as much profit.

BANQUETS

Some large properties offer a catering department (or banquet department) headed by a catering manager who books and sells banquets. Smaller properties include this activity among the restaurant manager's duties. Larger properties have special full- and part-time banquet service staffs. Smaller properties draw banquet service personnel from their regular crew and often supplement them with part-time employees.

Banquets are often profitable, but once again, in many properties, the banquet menus and banquet rooms are meant principally to serve the rooms department. Thus, a meeting may occupy one conference room all day. Perhaps the hotel supplies a coffee break and a luncheon in another room. Typically a hotel waives charges for the meeting room if a sufficient number of guest rooms are being reserved or if the food and beverage revenue are high enough. If such a meeting accounts for 20 or 30 guest room rentals—or even only 10 or 15—the logic we have mentioned before clearly applies. The 70 percent profit on room sales makes this use of banquet space desirable.

Banquet space can be used to sell guest rooms by accommodating groups, associations, and organizations.
(Courtesy of Caesars Atlantic City)



FOOD PRODUCTION

In most properties, the person in charge of food production is called the executive chef. A chef is a person who has completed, either formally or informally, the training that qualifies him or her to be an excellent professional cook. The chef should also be an effective manager who can purchase food; hire, train, and manage employees; and plan appetizing meals priced to yield a profit. A highly experienced, well-trained chef capable of large-scale food production is an investment for the typical hotel. Salaries of such chefs are very competitive. A skilled, talented chef, however, usually bolsters the success of the hotel's food and beverage operation, thereby offering a good return on the investment.

An increasingly common title in American food service is food production manager. Although these managers are almost invariably accomplished cooks, they emphasize kitchen management and adhere strictly to written recipes rather than relying on their craft skills to ensure quality. The type of management chosen by a property generally reflects the dollar volume of food sales. More sales may permit the expense of a chef or food production manager. Smaller properties may have to content themselves with a head or lead cook. In this case, the restaurant manager generally works more closely with the kitchen.

With the greater availability of quality frozen prepared foods as well as the growing acceptance of limited menus, an approach to food service that requires limited culinary skills is becoming more and more common in hotels that don't try to reach the full-service or luxury standards.

Large convention properties may support a separate banquet subdepartment of workers who prepare only banquet food. Some properties even use a separate banquet kitchen and have a designated banquet chef. The banquet culinary team of a hotel has tremendous opportunity to impact the hotel's food and beverage reputation because of the volume of people served. A large convention hotel could serve several hundred or even several thousand individuals through banquet operations.

Hotels may also have additional specialized culinary sections of the main kitchen. These specialization



Food service is a critical component of full-service hotels (Courtesy of Las Vegas News Bureau.)

areas include the garde manger area (where cold appetizers and salads are prepared) and a pastry shop (involving baking breads and preparing pastries and desserts). Typically, larger hotels or upscale, luxury hotels have these specialized culinary sections.

SANITATION AND UTILITY



Sanitation is so important that many hospitality programs offer entire courses on the subject. Our purpose here is simply to repeat the point made in Chapter 4 regarding the importance of dishwashers, pot washers, and the cleanup crew often referred to in hotels as the stewarding department. In Chapter 3, we noted that many students find that the only summer jobs available are in these areas. They may not be the most interesting jobs, but as we said earlier, they provide an ideal observation point for learning about how a food service operation functions.

There is another reason for mastering these jobs while a student. The job of an assistant restaurant manager includes responsibility for sanitation in restaurants, hotels, and on-site food service operations. It is most commonly assigned to people just out of management training programs. Success in this job often launches a successful career, and a good working relationship with employees is helpful in this entry-level position. Few things will help you toward that goal more than the ability to roll up your sleeves and help out when one of your crew members gets stuck. (Be careful, however, not to turn yourself permanently into a dishwasher just to win popularity contests.) You need not plan to spend your life in the dish room, but never be afraid to say you started there.

LEASED RESTAURANTS

The practice of leasing restaurants has become increasingly common. We can summarize the advantages and disadvantages of doing so. By leasing a restaurant, a full-service property permits hotel management to focus its attention on the more profitable rooms department instead of the time-consuming food service operation. In addition, that difficult operation is taken over by experts, often with a major franchised brand. Furthermore, the hotel operator can count on a certain amount of guaranteed revenue as a result of the lease payment. However, leasing restaurants puts one of the hotel's service departments in the hands of another company, which is concerned with its own objectives and profits. This topic is discussed again in Chapter 12. Industry Practice Note 10.3 discusses some of the issues to consider before outsourcing a food and beverage operation.

Pros and Cons of Outsourcing Food and Beverage Operations

One of the benefits of outsourcing food and beverage outlets is that, particularly when teaming up with a high-profile chef like Emeril or Wolfgang Puck, foot traffic and brand identity can surge. Casino hotels, such as the MGM Grand Hotel in Las Vegas, have certainly benefited. It contains an Emeril restaurant as well as several others, including a Rainforest Cafe. Even with these types of limelight partnerships, most hotels do not outsource their food and beverage operations. According to the American Hotel & Lodging Association's 2006 survey, fewer than 10 percent of hotel companies had outsourced restaurants. In 2008, food and beverage sales at full-service hotels accounted for 27.2 percent of revenue, according to PKF Hospitality Research.

There are numerous ways to manage a restaurant partnership. A restaurant can lease space in a hotel, run the operation, and pay rent and utilities. A hotel can partner with a restaurant and operate the restaurant but pay a licensing fee for the right to use the restaurant's name. One complication that happens frequently is determining who will provide room service. One of the key recommendations, if outsourcing, is to pick the right partner (hotel or restaurant) to build on one another's brands.

Source: S. Robinson, S. Saef, & L. Kantor, "Branding and Repositioning Food and Beverage—The Case for Outsourcing Partnerships," Arthur Anderson Consulting. http://www.hotel-online.com/Trends/Andersen/1998_BrandingF&B.html.

STAFF AND SUPPORT DEPARTMENTS

Some departments or activities in a hotel offer no direct guest services. Instead, they maintain systems for the property as a whole, such as sales, marketing, and engineering. Along with accounting and human resources, these departments typically are referred to as the **support areas** of a hotel. The departments support those departments that do provide direct guest services.

SALES AND MARKETING

With competition among lodging properties never more intense, the functions of marketing and sales are crucial to the success of a hotel. The main function of marketing is creating customers—guests who will visit a hotel and, it is hoped, become repeat visitors on a regular and frequent basis. Creating customers equates to having products or services that people want. For many potential guests, it may be the wide availability

of meeting rooms, a business center within the hotel, and guest rooms with fast-speed Internet service. For others, the availability of spa services and recreational amenities may be key. A second marketing function, therefore, is encouraging guests to choose your property by emphasizing all of the services and features that make the property pleasant or convenient or even, perhaps, unique. Finally, marketing involves promoting the property among various potential guests and groups of guests. (This duty is often thought to be all there is to marketing, but it actually comes after the first two.)

Marketing is a general management function that involves all levels of the operation. One important day-to-day activity in this area is personal selling. In large properties, sales managers and sales associates are responsible for finding sales leads and following up on them with sales calls and booking functions. Larger properties typically divide the sales function into specific target markets to allow sales managers and associates a more defined focus. For example, a larger urban property typically includes national conventions as one target market. Other markets might be the local corporate segment or one that includes several components discussed earlier as SMERF business (social, military, education, religious, and fraternal groups). Determination of just which market to approach is a crucial top-management decision usually made by the general manager, the sales manager, and even the ownership. Corporate policy may dictate these decisions in chains, but most often the precise market for a particular property must be specifically designated by the local management. (Some properties hire outside sales firms, called hotel representatives, to undertake sales activities for them in key markets.)

In smaller hotels, the general manager is responsible for managing sales. He or she commonly makes the sales calls personally and entertains people from potential sales accounts in the hotel. In some properties, the general manager is assisted in this work by a full- or part-time sales representative.

Because marketing is essential, there exists a major trade association, the Hospitality Sales Marketing Association International (HSMIAI, formerly the Hotel Sales and Marketing Association). The association conducts educational and informational programs for both sales personnel and general management. This organization, which publishes excellent materials on sales and marketing, is a good one to join after graduation or as a student if there is a chapter on your campus.

ACCOUNTING

The role of accounting has changed over the years and no longer just involves book-keeping and financial reporting. Hotels increasingly look to the controller, who heads up the accounting department, as a key member of the management team who can proactively advise and guide the hotel to increased profitability through better controls and asset management. In large hotels, in addition to the controller, the accounting department may contain several functional areas, including accounts payable (the area

overseeing paying incoming bills incurred by the hotel), accounts receivable (the area receiving payments from various sources), and payroll (which oversees paying hotel employees). Additional accounting positions may include a credit manager who works with groups and individuals prior to arriving at the hotel to approve their billing arrangements based on their credit history. The hotel may also have a general cashier or cashier supervisor who works with the front-office manager and food and beverage managers in overseeing employees who handle cash as part of their job responsibilities. Preparing the monthly profit-and-loss statement, working with department managers in developing and implementing the hotel's budget, and overseeing the hotel's cost control systems are routine accounting responsibilities. Chains generally develop sophisticated corporate accounting departments that supervise work at the individual property. In a small property, the work usually is done by some combination of the innkeeper's administrative assistant, a chief clerk, and an outside accountant.

When guests check out, they may pay their bills with cash, but they often charge this expense instead. The accounts receivable (bills owed by guests) in a hotel are divided into two parts. First, a **house ledger** (or tray ledger), kept at the front desk, is made up of bills owed by guests in the house. Charges by guests posted after they have checked out and charges by other persons, such as restaurant patrons not in the hotel, are kept in what is often called the **city ledger**. The term is derived from an earlier time when charging hotel bills was not common. Instead, guests paid cash when they checked out, and any charge not in the house ledger was a charge from some local customer, someone "in the city" who had a charge account at the hotel rather than someone "in the house." Incidentally, the word *ledger* originally referred to a book on whose pages these records were kept. Today, records of charges are usually maintained on a computer. The function, however, and even the terminology are the same.

HUMAN RESOURCES

Lodging is a labor-intensive industry with a relatively high employee turnover. As a result, issues related to human resources are an important consideration in any hotel and are commonly placed under the staff supervision of a human resources department. This department may be responsible for any or all of the following functions: employee recruiting, developing and maintaining job descriptions, overseeing the employee selection process, providing employees with orientation to the company and the hotel, designing and reviewing compensation patterns and benefit packages, and complying with government labor regulations. Large hotels actually may have specialists in key human resource areas such as employment, wage and benefit administration, labor relations (if the hotel is unionized), employee relations, and training. Most hotels, however, have human resource generalists who are proficient in most or all of the

specialization areas. Although the human resources department, as noted previously, is closely involved with the employment process, the hiring decisions usually are made by the appropriate department head. Although the human resources department does not produce revenue directly, most hotels realize that a comprehensive, well-run human resources function can definitely impact the bottom line. By better hiring and training, reduced turnover, fewer work-related accidents, and maximized employee satisfaction, which positively impacts productivity, the hotel's bottom line does benefit.

As we noted a moment ago, in large properties, a human resources department manages most of the processes just listed. In smaller properties, this work is done by the manager and his or her administrative assistant.

ENGINEERING

The engineering function is so important that many hospitality management programs have one or more courses devoted to the disciplines that support it. Once again, we simply describe briefly the work of this area. Large- and medium-size hotels usually employ a chief engineer who supervises an engineering staff. Together, they are responsible for operating the hotel's heating and air conditioning; for maintaining its refrigeration, lighting, and transportation (elevator) systems; and for overseeing all of the hotel's mechanical equipment. Breakdowns in these areas seriously inconvenience guests. And, of course, utility costs always have been significant and, in recent years, have been increasing at an alarming rate. Technological advances have been significant in the engineering area. Computerized energy management systems allow hotels to have enhanced control over energy usage, whether it involves shutting down systems in unoccupied parts of the hotel during slow periods or regulating temperature control throughout the day in different hotel sections. The engineering department typically oversees a hotel's waste management program involving environmentally conscious programs such as recycling and related sustainability initiatives.

In small properties, the engineer is often more of a general repairperson who carries out routine maintenance and minor repairs. Outside service people supply the more specialized maintenance skills. In these properties, the innkeeper often supervises the engineering (or maintenance) function.

In any property, large or small, general management should at least do the following:

1. Determine what periodic maintenance of equipment is required (oiling, filter changing, making minor adjustments, etc.).
2. Establish a schedule for accomplishing that work.
3. Develop a reporting system and physical inspection system that assures management the work is carried out properly and on time.

INCOME AND EXPENSE PATTERNS AND CONTROL

As with so many subjects discussed in this chapter, whole courses often are devoted to the topic of this section. Our purpose here, therefore, is to provide you with an understanding of the control structure of a hotel and a limited introduction to the vocabulary of control in hotels and restaurants.

As described below, a number of key operating ratios are used in analyzing the financial results of a hotel. Table 10.1 displays one type of financial analysis, ratios to total revenues. In this table, the figures are for full-service hotels.

To determine the property's overall efficiency, we deduct **undistributed operating expenses** from the total of the various departmental incomes. These four costs—(1) administrative and general expense; (2) franchise fees including marketing fees, marketing, property operation, and maintenance; (3) utility costs; and (4) other unallocated operated departments—are judged to be costs that pertain to all departments in a way that cannot be perfectly assigned to any one department. For example, the salary of the general manager and his or her assistants would be located under administrative and general (A&G).

The amount remaining after deducting these four categories of expense from the total of departmental income is called total **income before fixed charges**. This figure is probably the best measure of the success not only of the total property but of the general manager as well. For this reason, many managers receive bonuses based on their performance as measured by this figure. The remaining costs, known as fixed charges or **capital costs**, include expenses such as the management fee, property taxes, and other municipal charges and insurance and are a direct function of the cost of the building and its furnishings and fixtures.

KEY OPERATING RATIOS AND TERMS. In Chapter 4, we introduced some key ratios and food service terms; these are used in hotel food service as well. In addition, the hotel industry has other indicators of an operation's results.

Occupancy is generally indicated as a percentage:

$$\text{Occupancy percentage} = \text{Rooms sold} \div \text{Total rooms available}$$

Average rate is an indication of the front desk's success in gaining the full rate on rooms sold rather than discounting:

$$\text{Average rate} = \text{Dollar sales} \div \text{Number of rooms sold}$$

The average rate is also a mix of the double-occupancy rooms sold (rooms with two or more guests). This is reflected by the following formula:

$$\text{Number of guests per occupied room} = \text{Number of guests} \div \text{Number of occupied rooms}$$

THE UNIFORM SYSTEM OF ACCOUNTS

Hotel accounting is generally guided by the **uniform system of accounts** for hotels, which identifies important profit centers as revenue departments. The uniform system first arranges the reporting of income and expenses so that the relative efficiency of each major department can be measured by the departmental income.

TABLE 10.1

Selected Revenue and Expense Items for 2009, Full-Service Hotels: Ratios to Total Revenue

| | |
|--|---------------|
| REVENUE | |
| Rooms | 67.5% |
| Food and Beverage | 27.2 |
| Other Operated Depts. | 3.3 |
| Rentals and Other Income | 2.0 |
| Total Revenues | 100.0% |
| DEPARTMENTAL EXPENSES | |
| Rooms | 26.0 |
| Food and Beverage | 73.9 |
| Other Operated Departments | 61.8 |
| Total Operated | |
| Departmental Income | 60.3% |
| UNDISTRIBUTED OPERATING EXPENSES | |
| Administrative and General | 9.0 |
| Sales and Marketing | 8.0 |
| Property Operations and Maintenance | 4.8 |
| Utilities | 4.1 |
| Total Undistributed Expenses | 25.9% |
| Gross Operating Profit | 34.4% |
| Management Fees | 3.2% |
| Income before Other Fixed Charges | 31.3% |
| Fixed Charges | |
| Property and Other Taxes | 3.7 |
| Insurance | 1.5 |
| Net Operating Income | 26.1% |

Source: PKF Hospitality Research, *Trends, 2010*, PKF Consulting, San Francisco, CA. 2010.

The **RevPAR**, or revenue per available room, is calculated as follows:

$$\text{RevPAR} = \text{Rooms revenue} \div \text{Available rooms or Paid Occupancy Percentage} \\ \times \text{ADR (Average Room Rate)}$$

Because housekeeping is the largest and most controllable labor cost in the rooms department, many hotels compute the average number of rooms cleaned with the following formula:

$$\text{Average rooms cleaned per room attendant day} = \text{Number of rooms} \\ \text{occupied} + \text{Number of eight-hour room attendant shifts}$$

All of these ratios are usually computed for the day, the month to date, and the year at year's end. Comparisons of these indicators with earlier operating results and with the budget provides important clues to an operation's problems or success.

CAPITAL STRUCTURE. We discuss some of the financial dimensions of the hotel business further in Chapter 11. At this point, however, we need to describe briefly the capital costs found on the hotel's income statement because they are a significant part of a hotel's cost structure. Capital costs include rent, depreciation, and interest. Related costs, such as property taxes and insurance, can be included here because these taxes or fees are dependent on the value of the land and the building.

Depreciation is a bookkeeping entry that reflects the assumption that the original costs of the hotel building, furniture, and fixtures should be gradually written off over the useful life of these items. Interest, of course, is the charge paid to the lenders for the use of their funds.

The hotel industry is capital-intensive. That is, it uses a large part of its revenue to pay for capital costs, including real estate taxes. Close to 20 cents of every sales dollar go to cover costs related to the hotel's capital structure.

Hotel development is attractive to some investors because it is highly leveraged. **Leverage**, as a financial term, refers to the fact that a small amount of an investor's capital often calls forth much larger amounts of money lent by banks or insurance companies on a mortgage. A fixed amount of interest is paid for this capital, and so if the hotel is profitable, the investor's earning power will be greatly magnified, but the investor's modest initial investment need not be increased. Earnings go up, but interest and investment do not—hence, the word *leverage*.

Leverage, as developers have discovered repeatedly, can be a double-edged sword. Operating profits boom in good times and cover fixed interest payments many times over. When times turn bad or the effects of overbuilding begin to be felt, revenues fall,

but interest rates (and required repayments on the principal of the loan) do not. The result can be a wave of bankruptcies.

ENTRY PORTS AND CAREERS

A recent graduate with a hospitality degree may question what the best career path is if his or her long-term goal is to be a hotel general manager (GM). There is no one path leading to the GM position. Most hotels promote based on performance, so work habits and accomplishments, regardless of the position, are key. Most typically, hotels look toward the two major operating divisions, rooms and food and beverage, to supply general managers. Some hotel chains have a specific development plan involving cross-training for promising division heads who aspire to become GMs. A rooms division head, with no food and beverage experience, would have an opportunity to work briefly in the food and beverage division, just as an aspiring food and beverage director would cross-train in the rooms division. GMs may also have a sales and marketing background or an accounting background. Although some GMs started in human resources, engineering, or culinary, these areas tend to be very specialized with fewer moves to GM positions.

FRONT OFFICE



Many people begin their career in the lodging industry in the front office, the nerve center of the hotel and the place where its most important sales occur. With the growing importance of the limited-service property, moreover, the front office increases in prominence because in limited-service properties, it is a critical area of technical knowledge. We should note, however, that front-office techniques can be mastered fairly quickly. Nonetheless, a good many of the hotel's important operating functions outside the front office must be learned as well. Although some executives have risen to GM from the front office, most of them are found in small properties. If your ambitions include advancement to GM, you will want to think carefully about building on a successful front-office experience by adding experience in another area. In a limited-service property, this should probably be marketing.

Many people find front-office work, with its constant change and frequent contact with guests, the most rewarding of careers. Moreover, improved pay scales in this area in recent years have upgraded the long-term attractiveness of this work, as has

the increasingly sophisticated use of computers. Another advantage of this area is a more or less fixed work schedule, although the afternoon shift's hours (from 3:00 P.M. to 11:00 P.M.) and those of the night auditor (from 11:00 P.M. to 7:00 A.M.) are viewed by many as drawbacks to those specific jobs.

ACCOUNTING

It is certainly true that during the Great Depression of the 1930s, many successful managers were accountants. Today, however, accounting has become a specialized field, and successful training in this area can be so time-consuming that it may be difficult to master other areas of the operation. Although accounting may not offer as easy a route to the GM's slot as it once did, it does offer interesting and prestigious work for those who like to work with numbers. Moreover, the hours in this area tend to be reasonably regular, the pay is usually good, and the position is prestigious.

Although accounting per se is not as common a route to GM as it once was, a new offshoot of accounting, operations analysis (and the related position of revenue manager), is quite a different story. Operations analysts conduct special cost studies either under the direction of the auditor or comptroller or as a special assistant to the GM. Some operations analysts work in corporate headquarters. The operations analyst's job is such a good training ground for young managers that a regular practice of rotation through this job for promising managers has become, in some companies, a feature of management development.

SALES AND MARKETING

The key to the success of any property involves having sales. Thus, it is not surprising that many successful hotel operators have a sales background. Salespeople often find that a grounding in front-office procedures and in food and beverage operations (with special emphasis, respectively, on reservations and banquet operations) leads to success in sales. Successful sales personnel are much in demand, and a career in sales offers interesting and financially rewarding work to those interested in this aspect of hotel work.

The importance of sales and marketing tends to increase when there is an over-supply of rooms in a market. Increasingly, the marketing manager for a hotel is being asked to conduct market research or to analyze market research done by others. Indeed, a common requirement for senior positions in marketing is the ability to

prepare a marketing plan. Such a plan evaluates the local environment and the competition, sets goals for the plan period (usually one to three years), and presents the strategy and tactics to fulfill the plan. A solid educational background is a great help to the modern hotel marketing manager.

FOOD AND BEVERAGE

Food and beverage is one of the most demanding as well as exciting areas of the hotel operation. Success calls for the ability to deal effectively with two separate groups of skilled employees: cooks and serving personnel. Along with mastering both product cost control techniques (for both food and alcoholic beverages) and employee-scheduling techniques, the food and beverage manager must also work in sanitation and housekeeping and master the skills of menu development. He or she must complete all these duties against at least three unyielding deadlines a day: breakfast, lunch, and dinner.

An advantage of careers in food and beverage is career-progression flexibility. Accomplished management and supervisory people in the food and beverage field almost always enjoy the option of moving to work outside the hotel in restaurants, clubs, or on-site food service. Although food and beverage probably requires longer hours than does any other area in the business, it is typically a well-paid position and offers not only career flexibility but unusually solid job security. Finally, it forms a sound basis for advancement into general management.

OWNING YOUR OWN HOTEL

Many students are attracted to the hospitality management field because they would like someday to own their own businesses. Whereas new hotels require large investments, existing operations can sometimes, under special circumstances of two different kinds, be purchased with little or no investment. These circumstances arise after a wave of overbuilding and during economic recessions (and particularly when these two occur simultaneously), when bankruptcies become common. In addition, when banks must take over a hotel, they need someone to handle operations. They are often willing to give an opportunity for an ownership interest to a person with the know-how to take the property off their hands.

Some older hotels in smaller cities offer another kind of opportunity. They may have lost their competitiveness as hotels while still occupying prime downtown real estate in a good food and beverage location. Because of this fact, together with an older hotel's extensive banquet facilities and liquor license, the property may be

revitalized by a well-run and imaginatively promoted food operation. The profits of that food operation may then be plowed back into improving the hotel facilities. The improved facilities and the property's improved reputation, earned by its newly successful food and beverage operation, often result in a greatly improved rooms business. Examples of such operations can be found in many parts of the country. Where they are found, they always share these three characteristics: (1) excellence in the food operation; (2) unusually effective promotion, generally enhanced by the manager's community involvement; and (3) very, very hard work by that manager, who seems to live and breathe the hotel and restaurant business.

In summary, the lodging business offers many rewarding careers in front office, accounting, marketing and sales, and food and beverage. Depending on the individual and the circumstances, any one of these careers can lead to the top. For those whose ambition and temperament make them want to extend themselves, the top job as GM or owner (and even larger corporate roles) is certainly within reach, and ownership is in sight.

SUMMARY

The first topic we discussed in this chapter was the major functional areas of a hotel and who runs them. Although big hotels have true departments and department managers, smaller hotels would designate these as areas, supervised by lead employees.

We next examined the rooms side of the hotel. The front office is particularly important, as it is the guests' first real contact with the hotel. The front office generally has a morning clerk, an afternoon clerk, and a night auditor, all with duties that both differ and overlap. All help in making reservations, generally through a computerized reservation system.

The property management system makes the operation of the front office more efficient and usually links it electronically to the hotel's other departments and, more often than not, to the hotel chain's central reservation service. Reservation systems often make use of yield management systems that are designed to get the best total dollar revenue possible through a mix of occupancy and average daily rate. Security is a concern that can be addressed technically through improved door-locking systems and other devices. Managerially, security involves ensuring that the hotel is exercising reasonable care for security of the guest's person and property by establishing an overall security system for the property. Other rooms-side

departments are the telecommunications department, the housekeeping department, and the bell staff.

The food and beverage department is very important to the full-service hotel, as it may determine whether guests return to the hotel (or come in the first place). We described the kinds of restaurants that various types of hotels offer, banquet facilities (if any), food production, and sanitation and utility.

We next looked at hotels' staff and support departments: sales and marketing, engineering, and accounting. The accounting department is sometimes referred to as the back office. We explained hotel departmental income and expenses, operating ratios and terms, and, finally, capital costs.

We finished the chapter with a look at the best routes to advancement in the hotel industry—front office, rooms division, food and beverage, sales and marketing, accounting—and the advantages and disadvantages of each. We also discussed the possibility of owning your own hotel.

Key Words and Concepts

Rooms department

Front office

Night auditor

Auditing process

**Property management
system (PMS)**

Average rate

Yield management

Housekeeping

Telecommunications

Bell staff

Security: reasonable care

Magstrip

Food and beverage department

Support areas

House ledger

City ledger

Undistributed operating expenses

Income before fixed charges

Capital costs

Uniform system of accounts

RevPAR

Review Questions

1. How does the organizational structure differ in large hotels and small ones?
2. Describe some of the duties of the morning clerk, the afternoon clerk, and the night auditor.
3. How is technology being utilized to provide greater hotel security for guests?

4. What are the benefits of a property management system? How does it make the front office run more smoothly?
5. What is the purpose of yield management? What problems does it pose?
6. Describe the different kinds of restaurants that a large hotel might have.
7. What are the advantages of the sanitation and stewarding area for a summer job?
8. What are typical departmental expenses for the rooms division and for the food and beverage division of a full-service hotel?
9. What are capital costs? How important are they in hotels?

Internet Exercises

1. **Site name:** *Lodging* magazine

URL: www.lodgingmagazine.com

Background information: *Lodging* magazine profiles leaders driving hospitality to new heights, designers breaking the mold, and general managers applying new solutions to age-old problems in hospitality. The 30-year-old magazine reports on restaurant and food trends, best practices, and industry events.

Exercises:

- a. Click on the “Blog” tab on the Web site. Scan several posts under this tab. Describe some of the challenges currently facing lodging managers in the operations area.
- b. Click on the “Past Issues” tab and then the “Marketing” link on the Web site. Scan several articles under this tab. Describe some of the challenges currently facing lodging managers in the marketing area.
- c. What other operational categories are covered in the magazine?

2. **Site name:** *HOTELS* magazine

URL: www.hotelsmag.com

Background information: This publication serves the worldwide hotel market in 170 countries. *HOTELS* magazine covers the 100+-room hotels in the United States and the 50+-room hotels in the rest of the world that account for 76 percent of all worldwide hotel revenue. In addition, *HOTELS* magazine covers hotel management companies and major chain headquarters.

Exercises:

- a. Read several posts under the “Industry Blogs” tab. Describe how hotels are changing to meet the challenges facing them in the lodging industry.
- b. Choose a challenge that is facing the hotel industry today. Scan several articles under the “Industry Blogs” and “Daily News” tabs and describe how the lodging industry is addressing that challenge.

- c. Describe how hotels are using different design techniques as a sales and marketing tool.
 - d. From your readings on this site, what is new in the area of sustainability? Also, do you see a common theme here?
- 3. Site name:** Hotel Property Management Systems
- URL:** Google—www.google.com
- Bing**—www.bing.com
- Yahoo!**—www.yahoo.com
- Background information:** Hotel property management systems improve operational efficiency by eliminating repetitive tasks and improve service by providing information more quickly and accurately, thereby improving operational control.
- Exercises:**
- a. Using a search engine of your choice, enter the words “hotel property management system.” From the results, choose two vendors of a property management system and identify the features and capabilities of both systems.
 - b. Discuss the similarities and differences of the two systems.
 - c. Based on features, which system would you choose if you were the general manager of a hotel? Why?

Notes

1. A good explanation of the concept of yield management can be found in Bill Quain, Michael Sansbury, and Dennis Quinn, “Revenue Enhancement,” *Cornell Hotel and Restaurant Administration Quarterly* (April 1999): 76–83. Yield management is also described more fully by one of its originators in lodging, Eric Orkin, in his article “Boosting Revenues through Yield Management,” *Cornell Hotel and Restaurant Administration Quarterly* (February 1988): 52–58. More recent articles exploring yield management include J. Higley’s “Discounting Isn’t Bad When It’s Done Correctly,” *Hotel & Motel Management* 218, no. 13, July 21, 2003, p. 8; P. Yesawich’s “The Trick to Discounting Is Using Good Judgment,” *Hotel & Motel Management* 218, no. 10, June 2, 2003, p. 12; and S. Kimes and J. Wirtz, “When Does Revenue Management Become Acceptable?” *Journal of Service Research* 7, no. 2 (2003): 125–135.
2. PKF Hospitality Research, *Trends, 2010*, PKF Consulting, San Francisco, CA, 2010.
3. P. Garfinkel, “Take the Hotel Room Home,” *New York Times* online, December 13, 2006, www.nytimes.com/2006/12/12/business/12hotel.html.
4. Hotel security is such an important topic that entire textbooks have been written on the subject. A very good source of current information relating to this area is the study titled *Safety and Security in US Hotels*, available from the Cornell University Center for Hospitality Research, www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15092.html.
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8. Anthony Marshall, "Someone to Watch Over Me Should Be Camera Standard," *Hotel & Motel Management*, November 18, 2002, p. 10.
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10. www.forbestravelguide.com/five-star-restaurants.htm.