Hotel and Restaurant Strategy: Key Elements for Success

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Abstract
Strategy is the key to success for any hotel or restaurant company, but developing and implementing a strategy is sometimes an elusive goal. A series of presentations at the 2012 Cornell Hospitality Research Summit focused on how to develop and apply strategies in the hotel industry, restaurant industry, and the hospitality industry generally. Perhaps the most important aspect of strategic management is finding an appropriate way to measure whether a particular strategy is successful. Also critical is aligning all stakeholders in a hospitality operation.

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2012 Cornell Hospitality Research Summit: Hotel and Restaurant Strategy: Key Elements for Success
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Key Elements for Success

by Glenn Withiam

ABOUT THE AUTHOR

Glenn Withiam is the director of publications at the Cornell Center for Hospitality Research. The CHRS proceedings series would not have been possible without the notes provided by the following session reporters: Elisa Chan, Nancy Chan, Laura Fraefel, Mathias Gouthier, Arnab Gupta, Rahul Kamalapurkar, Sanghee Park, Kate Loh Qiaoling, Natasha Singh, Kanika Thakran, Matthew Walsman, Jie Yang, Yunzi Zhang, and Enlin Zhou. The session reporter group was organized by Kimberly Schlossberg, CHR conference assistant.
The importance of strategic thinking resonated in numerous presentations at the 2012 Cornell Hospitality Research Summit (CHRS), with some presenters focusing on restaurant issues, some on hotel industry considerations, and some looking at the hospitality and service industries more generally. Since the goal of most strategies is to build customers’ patronage and loyalty, CHRS presenters aimed many of their analyses at the foundations of customer brand loyalty. Employees’ attitudes and actions are critical in this regard, for example. Hotel owners are also essential to the success of customer-focused strategies, and the industry’s ownership fundamentals are constantly in flux. For a strategy to succeed, organizations must align their many activities and stakeholders. Inherent in the customer-oriented strategy is the essential matter of making sure that a brand’s marketers are hitting their intended target, which can be determined with appropriate measurement. Also critical to proper strategy is an understanding of the competitive set—and making sure that one has correctly identified the competitors. Within each strategy is a set of service offerings and property features, the value of which can be analyzed individually and in concert. A well-designed physical environment is inherent in any successful operation. Like other hospitality industry segments, restaurants are moving rapidly to integrate technology in their operations, notably with social media. Although loyalty programs are an inevitable part of the competitive scene, true loyalty comes through excellence in service that involves attention to detail, hospitality, and appropriate service. For many chains, franchisees are integral to ensuring the brand’s success and thus it’s important to consider the dynamics of a franchise system. Consumer research is also critical to a restaurant’s success.
Strategy is the key to success for any hotel or restaurant company, but developing and implementing a strategy is sometimes an elusive goal. A series of presentations at the 2012 Cornell Hospitality Research Summit focused on how to develop and apply strategies in the hotel industry, restaurant industry, and the hospitality industry generally. Perhaps the most important aspect of strategic management is finding an appropriate way to measure whether a particular strategy is successful. Also critical is aligning all stakeholders in a hospitality operation.
Aligning your brand with your strategy. A major goal for brand managers is to have customers feel comfortable and at home when they enter your property. Employees are critical in creating that brand experience, as explained by Rick Garlick, research chairman for the Hospitality Sales and Marketing Association International (HSMAI) Foundation Board. Employees should reflect your values. When employees are aligned with a company’s core values, they will be more effective at delivering the brand experience and value. Garlick presented the results of a study of 1,000 full-time hospitality employees, which he conducted with Maritz. Just over half of them worked in food service, about one-third were in hotels, and the rest worked for airlines, gaming, and other hospitality segments. Using a 125-item survey, the study measured workplace engagement, service climate, rewards and recognition, and values.

The Maritz study found four types of hospitality employees, based on their values. Just over one-third were “pioneers,” who want to create and find meaning in their work and seek a fair degree of freedom. Just over one-quarter were “stabilizers,” who are the “worker bees” that keep a company going and prefer stability and tradition. One-fifth are “drivers,” who seek achievement and power. Finally, the “altruists” place their highest value on benevolence and universalism. These proportions held relatively constant for hotel and restaurant employees, as Garlick explained it, with a larger group of pioneers, followed by stabilizers, drivers, and altruists.

Next, the study categorized employers, as viewed by the employees. Just over one-third said they worked for “empowerers,” companies that place a high value on self-direction and stimulation. Nearly half of the firms were viewed as “command and control,” which are firms that are focused on power and making money. Finally, about one-fourth are seen as “mission-oriented,” businesses with a larger purpose, but which are also high on conformity and tradition.

Many employees found companies that matched their values, but mismatches are a challenge for employees and employers alike. For example, when asked whether their company’s values match their own values, pioneers who worked for empowers agreed that a match existed, as did the driver-type employees who worked for the command and control companies. In contrast, the mismatches are drivers in an empowering or mission-oriented firm, and altruistic employees in a command and control type environment.

Garlick found clear payoffs for alignments between employee and employer values, including lower turnover, recommending the firm to friends, and going beyond formal responsibilities. Aligned employees are more likely to say that they would stay with their employer, would recommend their employer to family and friends, and feel motivated to do what it takes to get the job done.

About the 2012 Cornell Hospitality Research Summit

In a concentrated two-day period, the Cornell Hospitality Research Summit 2012 presented over 80 presentations on a wide variety of hospitality-related subjects, all focused on the key issues to advance the hospitality industry. Given the industry’s many moving parts, specialized disciplines, and parallel enterprises, the overall message from the CHRS is the need to engage all stakeholders in the critical elements that create success for hospitality enterprises: providing service and facilities that satisfy customers, giving operators the tools to expand revenues, and controlling costs to provide a reasonable return for investors. In the process, hospitality executives and academic researchers presented their research on the many disciplines and issues that come to bear on the contemporary hospitality industry, including customer service, distribution, hotel investment and value, human resources, internet analytics, pricing and revenue management, restaurant service and operations, social media, sustainability, and technology.

CHRS 2012 brought more than 230 hospitality industry practitioners and researchers to the Cornell School of Hotel Administration in October 2012. The CHRS was expressly designed by the Cornell Center for Hospitality Research (CHR) to balance input from academic researchers and industry executives, with research-based presentations, keynote panel discussions, and hands-on workshops. CHRS 2012 was also the capstone event for the twentieth anniversary of the Center for Hospitality Research. In an anniversary video, CHR advisory board members and former CHR directors explained the CHR’s development as the foremost source of hospitality research.
Trends in hotel ownership. Hotel owners are a key partner in the industry’s success. Following up his appearance on the CHRS keynote CEO panel, Arthur Adler, managing director and CEO–Americas for Jones Lang LaSalle Hotels, outlined the key drivers of hotel acquisitions and gave his forecast of the forces affecting the industry for the next five years. The five drivers are industry fundamentals, availability and cost of capital, REIT stock prices, number of deals available, and hotel ownership composition. A healthy industry means more deals, Adler explained, showing the connection between RevPAR and deal activity, and the ready availability of capital and debt financing adds fuel to the deal making engine. As REIT share prices climb, those organizations tend to become more active. The deal volume also picks up when hotel owners see that buyers are in the market and decide to sell their hotels (or are forced to sell distressed properties). One noteworthy factor in price and transaction volume is the meager supply pipeline, which will remain below average for the next couple of years.

As the type of ownership organization has changed over time, Adler notes that the largest ten owners have gradually come to represent an increasingly large percentage of properties. Although REIT activity is once again picking up, Adler anticipates that private equity investors will continue to be the most active group in the market. Equity investors tend to be opportunistic as they seek value in almost any market, while REITs tend to focus on high quality assets in the top 15 markets. Off-shore investors will also continue to purchase top quality properties, typically urban or resort properties in coastal gateway markets. In conclusion, Adler sees the following forces for the next five years. Private equity funds, REITs, and off-shore investors will all be active with substantial capital, and hotels will continue to be favored asset classes, particularly given their ability to serve as an inflation hedge. Supply growth remains below average, while lodging demand will continue to grow with the population and overall economic growth. Thus, the potential for asset price appreciation is substantial, especially compared to where things stood in 2009 at the bottom of the cycle.

International arrivals in the U.S. Helping to drive the industry’s asset appreciation is the continued growth of international travel to the United States. As detailed by Amy Severson, senior director of industry relations for Expedia, some 62 million international travelers spent $153 billion in the U.S. in 2011. The top five source countries, as measured by room-nights, are Canada, the United Kingdom, Germany, Japan, and Brazil. Top destinations are New York City, Las Vegas, and Orlando, but some of the fastest growing markets include Bangor and Portland, Maine, and Atlantic City, New Jersey.

International guests use multiple channels and platforms as they plan their trip. To attract these visitors, Severson points out the importance of posting local content with appropriate key words in a platform-sensitive manner. Sometime in the next two years, the number of mobile
internet users worldwide will surpass those using desktop computers. Mobile sites are not merely desktop sites reduced in size, so hotels should design appropriate mobile sites. Prices should be given in travelers’ local currency so that they truly understand the cost of the trip, sites should allow searches for local attractions, and the site should offer a wide variety of payment options.

**International arrivals in Asia.** Research by Accor Hotels profiled business travelers in Asia to gain a sense of their travel patterns. As detailed by Evan Lewis, vice president of communications for Accor Asia Pacific, the Asian business travelers were predominately men (about three-quarters), who averaged ten trips in the first six months of 2012. About one-third of those trips took the traveler to a different country, and the number of trips planned or taken in 2012 was substantially higher than in 2011. Lewis noted that the single most popular designation was Singapore, but Thailand is growing in popularity. Oddly, while Singapore was a top destination for business travelers from Hong Kong, the reverse was not true, and the top three destinations for travelers from Singapore were Malaysia, Thailand, and Indonesia. Almost six in ten of the travelers booked their hotel stay on Brand.com, except in China where OTAs tend to be used more heavily. The top two trip purposes were company meetings and visiting customers. Not surprisingly, location was the reason given most frequently for choice of a property, with wi-fi a close second. Again, Chinese business travelers were the exception, as they considered the loyalty program the top reason for their hotel choice. Travelers from India were more price sensitive than those from other nations. As a closing note, the survey found that only about one-fourth of the travelers usually used a hotel’s fitness facilities. Most travelers spent their time in the hotel working.

**Alignment optimization.** Michael Taylor, of Schelling Point, focused his presentation on how companies can improve alignment in their business, as companies have numerous collaborations—nearly 80—to accomplish their various goals. Collaborations determine an organization’s direction, distance, speed, and differentiation. At the same time, collaborators may have competing objectives: quality and accuracy, speed and effort, and engagement and ownership. In any process, Taylor points out that people want to know how they’re doing, whether they’re aligning over key points, and how they would measure those points. In any process, there are rational, but incomplete inputs; logical, but flawed plans; and positive, but below-par outcomes.

Gaining alignment combines elements of three scientific currents: the theory of independent decision making (how people act in mixed motive, non zero sum situations), relational networks (social exchange theory), and action science (what causes people to act or not act). This analysis produced four components for alignment success: participation, GUBA coverage (goals, unintended consequences, barriers, and assumptions), theme coverage, and discussability. Gaining alignment on the four GUBA points is challenging, unless one expressly addresses them. Taylor also pointed
to three sources of failed alignment, namely, different data, different dictionary, and different drivers. These must be identified and reconciled. Most people identify different drivers as the reason for misalignment, but in fact the failure in alignment is more likely to arise from different data and, to a lesser extent, a different dictionary. Four assets will assist in alignment: what success looks like, how we’ll make it happen, how we’ll ensure it works, and why we are doing it. In other words, the group must first agree on why it exists and what it is doing. Looking at the GUBA framework, the goal is less likely to be the source of misalignment than the assumptions, barriers, and unintended consequences connected with that goal.

Making sure you’ve hit the customer target. Most hotel marketers target specific customer segments, but the critical goal is to make sure to identify and serve the correct targets—in particular, by analyzing the value of the customer to the brand. A presentation by Chris Klauda and Nandini Nadkarni, of D.K. Shifflet and Associates (DKSA) explained how to identify key market segments and analyze their contribution. DKSA continuously samples consumers to analyze their preferences for lodging type, brand, and reservation procedure, among many other variables. Nadkarni noted that DKSA has found that most customer research fails to quantify the value of a customer to the brand, but effective marketing decisions require the identification of “true” target customers that provide financial value to the brand.

Nadkarni presented the case of four market segments that are targeted by two well-known hospitality brands. The segments are labeled young and free (singles under 35), family (people 18-59 with children), free birds (couples 30-59 without children), and matures (those 60 and over who are still active). The analysis compares the individual brand’s demand, customer value assessment, and ADR for each segment to the average indices for their competitive set. Thus, Brand A’s demand far exceeds the segment’s index for the young and free and family demographics, while the Brand B is above the demand index for the free birds and mature groups. However, Brand A gets high satisfaction ratings from the free birds, and Brand B gets high marks from young and free.

Those measures are worth knowing, but the final step of the analysis is the key: determining which segment is delivering ADR. For Brand A, the young and free and free birds segments have ADRs above the overall index, while family is not recording a high ADR, despite its strong demand. Instead, Brand B is achieving a relatively higher ADR from family travelers, as well as from free birds (which has been consistently strong in each test for this brand). With this analysis, we can answer the question of which segment is the true target. For Brand A, it is family, which has high demand and strong room spending, even though ADR is not as high as other segments. For Brand B, it’s not a surprise that the free birds segment is the highest in room spending, based on its strong demand and relatively high ADR. The point of this
analysis goes beyond determining whether you are hitting your targets, because a brand also wants to be sure that the “true” target actually fits with brand strategy. Finally, if your brand has no true target, that too is a call to reconsider brand strategy.

The distance effect. An analysis by Cornell professor Arturs Kalnins found that the distance between headquarters and a particular sales outlet seems to have at least some direct effect on how long that outlet survives, as compared to those which are closer to HQ. Kalnins compared the survival rates for pairs of units of numerous businesses in Texas, including such diverse enterprises as gas stations, women’s clothing stores, and restaurants. He found both that revenues were weaker for the more distant units and those units were not as long-lived. However, large chains with wholly owned outlets seemed to avoid the negative effects of distance.

Using only revenue data for hotels, Kalnins found that distant hotels’ RevPAR held up better than that of distant units in other businesses, and large chains seemed to have developed systems to counteract the distance effect. But there was still a revenue penalty for distance from the central office. The effect was particularly pronounced for small hotels and independent properties.

Identifying your competitors. When hoteliers analyze the prices and promotions offered by their competitive set of hotels, they may not be including all of their actual competitors and they may be paying attention to hotels that their customers aren’t really considering. These are the key findings of a study of hotels in New York City. Jun Li, of the Ross Business School at the University of Michigan, and Serguei Netessine, of INSEAD, used consumer data to develop the New York hotels’ competitive sets. The pricing transparency created by online travel agents can augment a hotel’s pricing errors, if it is not monitoring its actual competitors. With 500-plus hotels in the New York market, determining competitors can by challenging, but hoteliers can use customers’ click stream data to identify their true competitive set. Li and Netessine analyzed the search activities of over 3,500 users of a major OTA. The analysis created “networks” of competitors, in which some midtown hotels were actually in competition with those far downtown in the financial district, while other competitors were (not surprisingly) close by. The researchers found that independent properties were most likely to be overlooked or mismatched in a competitive set. Another driving force for mismatches is an appeal to different sub-markets by supposedly competing hotels. One clue for hoteliers regarding competitors could be the “also considered” and “also viewed” hotels on such sites as TripAdvisor.

Analyzing your competitive set. Carter Wilson of STR Analytics presented his firm’s examination of the 30,000 competitive sets in the U.S., as named by individual hotels. In short, many hotels are misaligned with regard to their competitive set. That is, they are believe they are competing against hotels that in fact are not competitors, while they are
failing to take into account hotels that are competitive. STR’s competitive sets range from as few as three to as many as thirty-six properties, with an average of about five.

The starting point for Wilson’s analysis is the name-back percentage. That is, hotels in a competitive set should mutually name each other as competitors. Only 45 to 50 percent of hotels’ nominal competitors name that hotel back. This means that most hotels have an “unconsidered set” of an average of three hotels that consider your hotel to be a competitor, but they are not on your radar. Wilson cautions against the all-too-human reaction that the management of the unconsidered hotels is wrong about who competes with whom. Instead, you can compare ADR, occupancy, and other ratios with other, similar hotels to see which properties actually match up as competitors.

Once the comp set is determined, Wilson says simple averages are not sufficient to analyze revenue opportunities. Instead, you can compare your hotel’s occupancy, ADR, and RevPAR against the band or range of competitors. If you’re at the low end of the band, you might want to consider how the top performers are achieving their numbers. That bandwidth analysis can also tell you whether you are truly competing against particular hotels. Moreover, depending on how complex your operation is, you may have more than one comp set, but that is uncommon.

**Hotel cluster considerations.** Without doubt, a hotel’s performance is at least partially affected by the presence of nearby hotels. A series of studies by Cornell professors Cathy Enz and Linda Canina examined the effects of clustering. Regardless of the type of hotel, the property must try to differentiate itself from competitors, particularly if it is newly opened. Economy and mid-scale hotels can benefit from co-location with upscale hotels, possibly due to spillover effects. Their most recent study examined RevPARs of more than 6,500 hotels between 2000 and 2011. Factors in the success of new entrants are complex, but the greater the new entrant’s strategic difference from other hotels in the cluster, the stronger the new entrant’s performance. The study also found that new brand-operated properties deliver higher performance than those operated by franchisees or independent properties. One likely explanation for the brands’ stronger revenue performance is that they tend to ramp up rates more quickly than other entrants. If the market is saturated with existing brands, a new entrant’s performance tends to be lower. However, if the market contains a group of homogeneous hotels, a new entrant generally does better, provided it has the necessary strategic difference.

**The value of trade shows.** Although virtual meetings will continue to grow in importance, trade shows will continue as a vehicle for networking, promotion, and sales.
In the preliminary findings of a study by Cornell’s Rohit Verma and HyunJeong “Spring” Han, of Russia’s National Research University, trade show exhibitors and participants both agreed that trade shows offer considerable value, although they see a need to keep costs in line. The pilot study, conducted with the support of the ASAE Foundation (The American Society of Association Executives), outlined the aspects of trade shows that offer the most utility. In addition to face-to-face interaction, exhibitors and participants agreed that the educational value, including the quality of presentations, speakers, and panelists, is a top criterion for choosing a particular trade show. Both groups also cited keeping costs affordable, including registration, transportation, and lodging. For exhibitors, a large number of people attending is an important consideration. On balance, exhibitors and participants find the most utility in having the show in a large city or mid-size city in the U.S., and a show running two to four days seemed most worthwhile to both groups. Verma and Han will expand their sample in their ongoing study, given that these findings were based on the views of about 450 participants and 70 exhibitors.

The value of spas. For many properties, a spa is a “must-have” amenity, but Cornell professor Mary Tabacchi suggested that in too many cases, the actual operation of the spa is almost an afterthought. In a new study of hotel spas, she found, for instance, that the spa director is hired so late in the development process that she or he has no say in the spa’s design or features. Tabacchi sees no reason that spas should not be larger contributors to the bottom line, but more to the point, the spa operator and hotel operator need to agree on the benchmarks for success. For better spa success, hoteliers might want to work more directly with spa operators during development. Her research discovered that, based on the realization that spa guests are big spenders, owners and operators both see spas as an expected amenity that attracts guests and promotes higher room rates, but not necessarily as a revenue center, even though spas can be operated profitably. The desire to build a “beautiful palace” works against the spa’s profitability, since overly large, fancy spas may have too much non-revenue space that is inflexible and inefficient. Instead, she recommends promoting the spa as a core competency that is integrated with the hotel and its offerings. The property also needs to determine whether its spa exists for profit or to add value to the hotel’s package more generally.

Evidence-based facility design. Service is clearly critical in both hospitals and hotels, but a well designed physical environment is also essential to both. While it’s true that hospitals are increasingly drawing design ideas from the hospitality industry, those changes are a result of evidence-based design, according to Cornell’s Stephanie Robson. Using evidence-based design, hospitals have implemented...
numerous innovations, including single-patient rooms, environmental noise reduction and masking, taking advantage of the restorative effects of nature, providing access to daylight and appropriate lighting, and putting artwork on the walls. In many instances, hospitals are also including hospitality-style settings in their facilities, such as public amenities (e.g., fitness and wellness center, patient center for exercise and entertainment), improved room amenities (e.g., shower stalls and large easy chairs), and better access, as well as patient-friendly décor.

Queue analysis for concierge medicine. Another amenity which hospitals are borrowing from the hospitality industry is the concierge. In this case, a patient pays a fee (currently $1,300 to $1,800) for “concierge medicine,” which provides preference in scheduling, among other benefits. Cornell’s Srinagesh Gavirneni analyzed the benefits of such an approach both for healthcare providers and patients. He found that well over 400 physicians are signed up for “MDVIP,” one such program. Patient participants tend to be younger and wealthier than average. However, the concierge option did have the advantage of making the system more efficient by reducing queues.

Toward a hospitality index. Although the SERVQUAL analysis has been applied to assess service quality in many hospitality contexts, Asli Tasci, an assistant professor at the University of Florida, noted that the human dimension of emotional labor is missing from existing measurement tools. With Kelly Semrad, also of the University of Florida, Tasci conducted a study to develop a uniform scale of hospitality service. The study’s factor analysis revealed three robust factors: professional conduct, emotional touch, and deep interaction. Thus, true hospitality means deep interactions between parties. However, since different hospitality enterprises offer different perspectives on hospitality, a uniform tool may be too general. Moreover, a uniform standard would not necessarily work across cultures.

Rebalancing the C-suite. The hospitality industry is far from the only business with few women as chief executive officers, but given the large percentage of women in other hospitality positions, the absence of women CEOs is particularly noticeable. Although twenty of the Fortune 500 company CEOs are women, none of them head one of the thirteen hospitality companies in the 500. An analysis of “women in the corner office,” by Juliette Boone of HVS Executive Search (with co-authors James Houran and Keith Kefgen), explored two primary reasons for this phenomenon. Boone sees both traditional workplace barriers and personally imposed barriers as impediments. Of the two, personally imposed issues may be more salient.

The workplace barriers are familiar: counterproductive male behavior, inhospitable corporate culture, lack of career planning or ladders, lack of mentoring, social exclusion, poor opportunities for managers, and stereotyping. The personal barriers are family demands—including unwillingness to relocate, spouse resistance, biological roles (i.e., maternity)—and the life-stage typical of promotions, which is in
Jim Swartz: IHG has implemented a balanced scorecard for risk management that connects security and safety scores with business proposals.

Sam Cole: Innovation and process improvements can help destinations continue to develop. Planners need to look forward as they approve new developments.

one's 40s. Thus, Boone's research finds that the chief impediment to women's success is the home.

To examine this issue further, HVS Executive Search conducted a four-week online survey that drew 99 C-level executive respondents (54 men and 45 women). Most were in the hotel industry, with some in the restaurant industry and a few in cruise and casino firms. Women respondents were far more likely never to have married than were the men. Of the married respondents, far more women had working spouses than did the men.

With regard to the barriers to the corner office, 58 percent of the men thought those barriers were personally imposed, and only 37 percent said traditional workplace barriers were a factor. On the other hand, 52 percent of the women cited workplace barriers as an issue. However, both genders generally agreed that mentoring and career planning are absent in the hospitality industry. Thus, deliberate discrimination did not seem to be a barrier, but Boone urges hospitality companies to be careful to avoid stereotyping.

The path through the “invisible obstacle course” should be made visible through leadership and skills development, as well as through mentoring and personal development. In conclusion, Boone suggested that responsibility for advancing talented career women rests both on the companies and on the individuals.

Applying the balanced scorecard. In its quest for continuous improvement, InterContinental Hotels Group is applying a balanced scorecard approach to assess its risk management performance. IHG’s Jim Swartz said this approach has connected security and safety scores with business requests for proposals, based on research conducted with co-authors John Ludlow, Chris Chu, Xiaolei Zhang, and Alexandros Paraskevas. In addition to being a facet of responsible business operation, a proactive, strategic approach to risk management also has brought favorable financial results, notably connected with insurance expenses and claims management, and has improved the guest experience. In addition to setting meaningful measures, the system is designed to highlight risk and focus on intervention.

Augmented destination life cycle. Sam Cole, of the University at Buffalo, presented his expanded model of destination development. Expanding on the existing destination life cycle model, Cole investigated how destination development is influenced by synergies between accommodation businesses and other tourist attractions, particularly in regard to the causes of congestion that stifle further development and the relief that is found as a result of innovation and other process improvements. One continuing issue is that destination planners’ decisions are based on conditions at one point in time, but the situation may have changed by the time the decisions are implemented. The life cycle can be re-set by local innovation that interacts with global markets, taking into account local heritage. One point to consider is that additional hotel rooms also mean infrastructure investments. In one case the cost per room of building the road to the hotel was greater than the cost of the rooms themselves.
Those rooms also trigger other expenses, such as OTA fees, labor, and supplies, all of which must be factored into the development plan. Issues to consider are the income from tourism, the tourism footprint, and the reaction of local residents to tourism development plans.

**SHARE-ing data.** Steve Hood, of STR, provided an update on STR’s SHARE center, which is designed to provide real-life data to university professors for classroom study. The program is now in place for over 100 universities, and includes data from hotels around the world. The most popular forms of data are live performance data, trend reports (including RevPAR and transient data), profit and loss information, pipeline, and hotel size and amenities. STR has also developed training programs and such aids as discussion questions. Hood says the goal is to help students graduate with numerical skills that allow them to move into analytical positions in the industry.

**Doing well by doing good.** An examination of enterprises that both have a social impact and financial viability found three generic types of enterprise. The study, by Colin Johnson, of San Francisco State University, explained these three types as follows. Social bricoleurs (that is, people who make assemblies of whatever is on hand) act on locally discovered opportunities with locally available resources to develop beneficial enterprises. As an example, Five Green Forks uses a fee-for-service model which sells its social services to target populations, sometimes with a third-party payer. Social constructionists develop ventures that tackle social needs that are not adequately addressed by existing institutions. One of these is Karma Kitchen, which focuses on the “gift economy.” Those who prepare food are paid in the coin of volunteerism, while income is generated from diners who eat for free but make donations or volunteer. Social engineers take on complex social problems, sometimes in the face of resistance from government or existing business interests. Table for Two is an example of this model, as it provides carefully priced meals that are designed to tackle the issue of obesity in developed countries, while it then takes the proceeds to provide meals for children in Africa.

**Rebooting labor relations.** For hotels that are faced with the possibility of union organizing efforts, David Sherwyn, of the Cornell School of Hotel Administration, proposes an “ethical principles” approach to organizing campaigns. The core elements of the proposal are that employees who want a union should have a union and those who do not want to organize should not have to do so. The hinge for the decision to organize should be the traditional anonymous vote. In contrast, union leaders and some politicians have proposed a “card check” approach, which would mandate a union with no vote once a majority of workers checks off a card indicating their interest in a union election.

**Restaurant Strategies**

**Restaurant industry prospects.** Reluctant recovery or not, the U.S. restaurant industry continues to address the overall trend of people eating meals away from home. An analysis
by Hudson Reihle, of the National Restaurant Association, noted that annual growth rates have eased, most likely due to the extremely modest growth in disposable income. Since much restaurant business is driven by tourism, travel patterns are important. On the expense side, restaurateurs are seeing commodity prices still rising, and they are concerned about new government regulations.

Riehle sees the following trends, some of which are in multi-year patterns: consumers focusing on local food and also on children make up an important market share; 90 percent of restaurateurs are involved in charitable activities; more Americans are using online reservations, as smartphones and social media use increases; nearly three-quarters of the 18-to-34-year-old market is using tabletop electronic payment; people are interested in cooking classes; and sustainability and recycled products are of increasing importance.

As the population continues to grow, the industry will see a moderate-growth environment, Riehle believes, at least for the next year. Economic fundamentals seem to be improving, but consumers will still carefully manage their check size and food-price inflation will remain a challenge, even as operators are reluctant to raise prices due to competitive forces. Consumers are more self-reliant and seek empowerment, they are using new engagement channels, and the seek a community connection. Despite the challenges, Riehle sees a positive future for the U.S. restaurant industry.

Restaurant technology trends. Restaurant chains are moving ahead with integrating information technology in their operations, according to a study by Michael White, business research manager for the National Restaurant Association, and Cornell's Rohit Verma. Looking at technology use by nine large food-service chains, White and Verma found that eight of the nine have mobile apps, seven of the nine have a restaurant locator and post their menu. Less common is ordering and payment technology, but chains are adopting those apps rapidly. White added that customers appreciate restaurant technology because it gives them improved convenience, control, and information, and better pricing options. For the restaurants, appropriate technology can improve service speed, reduce processing cost, provide improved marketing information, and gain better revenue management. White pointed out that restaurants must work with their service associates as technology is implemented, since employees will be concerned about technology replacing their jobs. The study found that younger guests expect technology to be in place, while older guests are mixed in their willingness to use tabletop apps.

Of the restaurants that have a website, four of five have maps or store locators, and a similar number post menus and promotions. Chain restaurants have moved more quickly into technology use than independents, particularly for such growing apps as online advertising services, wi-fi, and social media marketing. Online ordering is growing but has been adopted by about one-fourth of the restaurants.

Colin Johnson: Enterprises that have both social impact and financial viability may use one of three strategies: taking advantage of local opportunities, meeting needs that are not addressed, and undertaking social engineering.

Hudson Reihle: Enduring restaurant trends include a focus on local foods, more online reservations, and increased importance for sustainability and recycled products.
surveyed, and mobile apps are in place in about 12 percent of restaurants. Just a small percentage of restaurants have implemented tabletop or kiosk ordering devices. Looking only at the restaurants that use mobile apps, the most common use is for menus (70%), followed by maps (50%), ordering (39%), and payments (25%). Looking at that last item, the restaurant industry remains split on whether guests would like mobile or electronic payment options. About one-third of those surveyed agreed that guests want to pay their checks electronically, but those agreeing included far more chain operators than independents. Respondents split almost down the middle on the question of whether offering customer-facing technology would improve loyalty, but well over two-thirds thought that investing in restaurant technology enhances the customer experience and also makes an operation more profitable.

Turning to customers’ attitudes, White and Verma conducted a survey to gauge customers’ acceptance of technology. In general, they found that customers were willing to accept self-ordering on a tablet at the table or in a kiosk. Nearly all the respondents had used pagers for queue management, and about two-thirds had used the internet to place a product order. Customers with a high technology use were more likely to have reserved a table online, but overall that application had been used by about half of all customers. The guests viewed that ability to make online reservations as technology with a high utility, and they also liked the idea of tableside payment with a handheld device and, to a lesser extent, the ability to place an order while they are in line. In conclusion, White pointed out that customers’ technology preferences are constantly evolving, but there is a significant difference between the preferences of customers who are frequent technology users (experts) and those who are not as adept with technology. Perhaps of greatest concern, White sees a significant gap between customers’ technology perceptions and operators’ perceptions of what technologies the customers would prefer.

Building restaurant loyalty. Based on research and mystery shopper analysis of more than 7,500 visits to restaurants globally, James Coyle, of Coyle Hospitality Group, has formulated the elements that make a restaurant great. He explained that this excellence is what develops true guest loyalty. He found that the key indicators of excellence are at attention to detail (tangible items), hospitality (how the task is completed), revenue generation (salesmanship), and service (completing the task).

Looking at six possible touchpoints, Coyle said that many restaurants miss the following opportunities for excellence that foster guest loyalty. When the guest telephones for a reservation, barely half address the guest by name once it’s given, and only half requested email addresses for confirmation. At reception, the best restaurants invited the guest to return, and the host used the guest’s name and made pleasant conversation while accompanying the guests to the table (rather than sprinting ahead). The barkeep thanked guests and invited them to return about half of the time, and at
the table servers in barely one-third of restaurants thanked guests by name once they had that information from the credit card. A critical loyalty point is to have the management out on the floor. Just over half of restaurant managers personally delivered a dish that had been sent back, and less than half of restaurants had managers that made personal contact with a table. Managers making contact with at least three tables on a shift are a strong loyalty booster. Finally, almost half of restaurants failed the critical standard of neat, odor-free restrooms.

Coyle pointed out that the specific behaviors that distinguished excellent restaurants are neither complicated nor costly. They mostly involve heads-up service: captains who greet guests at the podium with a smile and welcome; servers who greet the guest within two minutes of being seated, develop rapport, are forthcoming with menu details, invite the guest to return, offer dessert with specific recommendations, serve beverages within five minutes of being seated, and offer refills proactively; and managers who engage with staff and guests at the door or on the floor. Overall, guests appreciate it when the restaurant's staff ensures that timing flows smoothly for each table.

Managing franchise brands. Although franchising has been one of the greatest engines of expansion for the restaurant industry, the relationship between the franchisor and franchisee can at times be challenging. Connecting the partners in the franchise deal is the brand itself, according to a study by Ben Lawrence, assistant professor of food and beverage management at the School of Hotel Administration. In a study of 207 franchisees, Lawrence found a clear delineation between attitudes toward the brand owner and the brand itself, especially in franchise systems that have been sold repeatedly. He suggested that the franchisee's relationship with the brand can be a mechanism for improving the overall franchise relationship. On balance, the greater the franchisees' identification with the brand, the greater their identification with the franchisor and their willingness to invest in the system and work with marketing initiatives. Initially, the franchisee might have identified with the company's founder, and many firms attempt to continue to draw on that legacy even after the founder is gone. This perception of the brand as a "partner" in the franchising relationship increases the level of trust in the system and can strengthen the governance mechanisms, including identification with the brand. Thus, the franchisor should focus on maintaining its legitimate ownership of the brand.

Parsing loyalty programs. Research by Mike McCall, a CHR research fellow, and Clay Voorhees, of Michigan State University, analyzed the effects of a restaurant's loyalty program, and found that customers enrolled in the program spent $190 more on average than those not enrolled. But McCall explained that the analysis was not as simple as it seemed, because all of the lift in the program came from customers who had been promoted to elite loyalty status. Compared to customers not enrolled in the program, members in the lower tier actually spent less on average, where as elite...
customers showed a $250 increase in spending in this particular study. Thus, although the loyalty program did have a favorable effect, McCall said that the key to making the program more than a “coupon” for value seekers is to ensure that customers feel special as members of the program. One way to do this is by ensuring that tier rewards make sense, but this does not always have to involve monetary rewards. Programs with a huge gap between tiers can discourage customers from continuing with the program.

In a study of a retail company’s loyalty program, McCall and Voorhees found that a retail store’s loyalty program had an optimal size, which was determined by the number of program members that the store could reasonably serve. Until the program hit that point, stores that exceeded their own average in signups saw better profits, while stores that fell below their average in enrollments saw lower profits. However, increased enrollment was more likely improve store profits when competition was low. Moreover, when the program does not promote brand equity, it functions only as a coupon. On balance, the study found that most programs improve a firm’s performance, but so far the McCall and Voorhees have found no programs that are optimized to maximize the benefit to the company.

**Developing McCafé.** Seeing the continued growth of the coffeehouse trend, McDonald’s sought to democratize the gourmet coffee experience for all consumers, explained Christine Lee, who works on McDonald’s corporate strategy. Although the number of cups of coffee consumed per person in the U.S. has fallen since the 1960s, an important trend shift occurred beginning in the 1990s, when people in the 18- to 24-year-old segment began to increase their consumption. The coffee house trend involved more than coffee, Lee explained. It also gave people a place to feel connected and offered a place to gather with a personalized service experience.

To adapt this concept, McDonald’s and its franchisees upgraded all coffee equipment in 14,000 restaurants, redesigned the drive through, and engineered the beverage delivery process for speed and to create “coffee theater.” With new coffee blends, the McCafé concept then expanded to smoothies and fruit drinks, in season. Not only did customers move from the coffee house to McDonald’s, but the new beverages gave customers more reason to visit the restaurants and improved brand perceptions.

**Christine Lee:** The McDonald’s McCafé concept was driven by corporate strategy based on consumer research.
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**2013 Proceedings**


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Vol 12. No. 1  2011 Annual Report

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