

Food Cost Increases Trigger Hotel Sustainability Gains

Recent food cost increases have ultimately pushed Hong Kong hotels to enhance the sustainability of their food management practices, according to the SHTM's Mr Murray Mackenzie, Dr Catherine Cheung and Professor Rob Law. Interviews with hotel food and beverage managers and executive chefs revealed that mid-priced and economy hotels were more challenged than their luxury counterparts by the steady increase in food costs late last decade. The most effective strategies for addressing the situation involved the increased scrutiny of suppliers, enhanced staff training and communication, and environmental protection measures designed to reduce food wastage.

A Global Problem Experienced Locally

The hotel industry in Hong Kong experienced a difficult period in 2008 and 2009, with global increases in food prices occurring at the same time as the H1N1 influenza crisis. According to the United Nation's World Food Program, food costs increased by 40% in 2008 alone. The researchers note that because hotels "generally set their food and beverage budgets 12 months in advance", the combination of rising food prices and reduced customer demand hit the industry particularly hard.

At the same time, food wastage was a common problem. Hong Kong's Environmental Protection Department estimated that over 3,000 tonnes of food waste was dumped in landfills every day during 2006, and the practice has not since abated. The hospitality sector is in a large part responsible for this. The researchers mention that although Hong Kong hotels are renowned for their "high-quality services, generous portions and the variety of goods offered", their food wastage, along with that of stand-alone restaurants, "has more than doubled in recent years."

The resolution of these problems will not be simple by any means. As the researchers observe, "satisfying customer needs has consistently been paramount in the service industry" and any attempts to address cost increases and

food wastage cannot compromise food quality. Hotels need to invest in prevention activities such as "quality audits, menu design reviews, quality training and supplier evaluation". Management systems can also be introduced to control the environmental impact of hotel activities, which may affect food costs through the management of food wastage, recycling and sustainability.

The researchers thus set out to identify the specific strategies that hotels in Hong Kong introduced to help them maintain profitability during 2008 and 2009, as they faced a "steady rise in the cost of general food items and in basic food commodities such as wheat, rice, maize and oils".

Hotel Managers and Chefs Interviewed

To understand how Hong Kong hotels responded to escalating food costs, the researchers conducted in-depth interviews with six food and beverage managers and two executive chefs. Two of the hotels represented were luxury, three were mid-priced and three were economy.

Each interview covered how cost increases had affected the hotel's food and beverage management and operations, and what innovative methods and sustainable practices had been introduced to reduce the problem. According to the researchers, the interviewees "provided an overview of each hotel's past food and beverage practices, current policies and future directions".

Food-Focused Responses

The interviewees indicated that all of the hotels experienced significant increases in food costs. The mid-priced and economy hotels were the most affected by the increases, and most aggressive in combating them. Some negotiated bulk purchases with suppliers to drive costs down, while others frequently changed both suppliers and products. Yet this, according to the researchers, also "had the drawback of reducing quality and affecting the overall expectations of customers".

All of the hotels sought to commit suppliers to prices for periods ranging from one to six months, benchmarked the prices they needed to charge customers against those of their competitors and “implemented some form of menu engineering”. This involved balancing “high-cost food items with low cost commodities” in finished dishes, such as offering prime beef with locally grown roasted tomatoes.

The luxury hotels were more conscious of maintaining food quality, but like their mid-priced counterparts they were bound by an only 2% tolerance in food cost increases versus yearly forecasts. In their relations with suppliers they were more likely to look for relationships lasting up to several years, thus improving operating efficiency by reducing paperwork, time spent receiving goods and potential pilfering. To partially offset the lower savings from such strategies, they also increased “the prices they charged their customers for à la carte and set menus”, but only to a certain extent.

One interesting observation that the researchers make about these strategies is that they were not pursued based on an understanding that prices were rising due to food shortages. Prices rose and hotels reacted, but the interviewees all indicated that they could still source the products they wanted, or alternatives, from their suppliers. Given this lack of a cognitive link between pricing and scarcity, the researchers note that there is an “urgent need for government and professional bodies to raise awareness of this important issue.”

Staff-Focused Responses

Other responses to the situation focused on how staff could be made more aware of food cost issues through one-on-one and group training sessions. The researchers also mention that the interviewees told of developing “performance standards, checklists and operating manuals incorporating current legislative requirements relating to health and safety”.

The hotels ensured that employees understood the rationale behind any new measures by conducting daily management meetings, team briefings and informal discussions. This, comment the researchers, was considered to be imperative in maintaining staff morale.

The Need for Sustainability

Given the extent of the food cost increases, the interviewees were also concerned about the sustainability of their food and beverage operations. The luxury hotels, in particular, implemented monitoring systems such as corporate social responsibility committees, and Hazard Analysis Critical Control Point monitoring to identify possible food safety hazards.

Unfortunately, the mid-priced and economy hotels were unable to take such steps due to the financial commitment required. Nevertheless, many of the best practices that had been introduced in response to the SARS crisis in 2003 were still in place, including portion-control techniques, food quality monitoring systems and the recycling of waste oil and cardboard.

The Key to Competitive Advantage

Given that food costs are critical to any hotel’s bottom line, the researchers argue that “hotels should endeavour to consider their environmental obligation to reduce food wastage and maintain sustainable practices”. The adoption of innovative practices and recognition of corporate social responsibility are ultimately the key, they write, to “maintaining competitive advantage in the highly competitive hospitality arena”.

Points to Note

- Global food prices increased rapidly in 2008 and 2009, along with food wastage.
- Hong Kong hotels responded by scrutinising suppliers, training staff and enhancing internal communication.
- They also implemented monitoring systems and health and safety measures to reduce food wastage.
- All hotels need to adopt sustainable practices to enhance their bottom line.

Mackenzie, Murray, Cheung, Catherine and Law, Rob. (2011) “The Response of Hotels to Increasing Food Costs due to Food Shortages”, *Asia Pacific Journal of Tourism Research*, Vol. 16, No. 4, pp. 395-416.