Hospitalitynews MIDDLE EAST

Issue 65 | August-September 2009 www.hospitalitynewsmag.com

Outsourcing or in-house management

Outsourcing as a term was invented in the late 1980's by the information system trade industry, used to describe the growing trend of large companies transferring their services to specialized providers. YOUMNA MAATOUK, consultant, HODEMA Consulting Services, takes a look at outsourcing versus in-house management for F&B outlets in resorts throughout the region

Outsourcing implies the transfer of management and day-to-day execution activities of a particular business function to an external service supplier whereby the organization and the supplier enter into a contractual agreement that defines the scope of the transferred service. In recent years, the concept of outsourcing has spread to many functions in varying industries. Those that have been actively outsourced include payroll, telecommunications, information technology and also food and management services.

Growing trend

In the Middle East, even though 63% of outlets in resorts are still internally managed, hotel companies in the region are becoming very active on the outsourcing front and are catching up with highly matured international organizations. Globalization, cost pressures and increased competition have prompted a growing proportion of Middle Eastern companies to expand their shared services and the range of business processes. Today, they are willing to outsource, both locally and offshore.

This growing trend has reached hospitality in all its forms. In a resort property, we often hear, particularly from new owners and operators, that F&B operations do not make enough profit as compared to other revenue generating departments. Therefore, the resort can turn to outsourcing in the F&B sphere and let the team focus on the operation and sale of rooms and other facilities such as beach access and activities. In fact, international benchmarks show that the profit margin of F&B outlets in a hotel or resort is between 25 to 40% while it could go up to 80% in the case of room occupancy. This obviously justifies the rush towards outsourcing F&B brands with owners preferring to focus on their own field of expertise and remove the burden of less profitable services.

Benefits of outsourcing

It is also believed that outsourcing services is a great cost saving tool as it decreases the overall cost of the service to the business. A good illustration would be 'Lazy B', a beach resort located in Jiyeh, Lebanon. The landowner, Georges Boustany, opened the resort and outsourced the whole F&B operation to 'Larissa' a renowned caterer in Lebanon. By following this model the owner of the land not only saved on cost but also increased his revenues through payable monthly rents and percentage of F&B total sales.

In addition to cost saving, outsourcing modifies the balance between fixed and variable costs. This effect is mostly driven by the fact that owners, by hiring outside operators, save on rental and payroll costs, which are known as being the major fixed costs a restaurant outlet may encounter. This phenomenon changes the cost leverage by offering a move from fixed to variable cost and also making the latter more predictable. Thus on average companies can save 10 to 20% of cost with outsourcing.

Having an outsourced brand manage the F&B facility of a resort, will allow resort owners to benefit from characteristics proper to the brand. Those particularities usually include the notoriety of its name that not only gives a certain standing to the overall development but also attracts more demand.

Benefits of outsourcing also include diversification of risks through the increase of strategic flexibility at the level of the overall investment. However this process is not without risks, these are often represented in hidden costs that usually drive up total cost of outsourcing.

Risks to expect

Among these risks is the failure of the tenant to measure the level of service required by the resort owner due to a poorly defined agreement contract. However, even when a contract is thoroughly drafted, the actual service delivered may not be to the level previously agreed upon. This may be due to the failure in setting, implementing and reporting proper objectives especially when it is being done for the first time.

Lower quality may also be driven by the willingness to match lower costs. As a matter of fact quality is relative, what the operator may view as acceptable may not match the owner's expectations. This will directly affect the reputation of the overall resort development

By outsourcing, resort owners lose control over the outsourced process, which makes it easy for the outsourcer to deviate from the original agreement. Again, this may directly affect quality whereby an outsourcer could easily replace staff with less qualified people or with people of different non-equivalent background in the aim to reduce costs. Lack of control from the owners point of view is also visible when it becomes increasingly difficult to manage the offshore providers compared to managing processes within the organization.

Though cost effective for owners, outsourcing may have hidden costs, including legal costs incurred while signing contracts and those incurred when a great deal of time and effort is spent on getting the contract signed.

Choose carefully

The reasons for outsourcing are diverse. However, in the F&B and resort industries, they are usually sought because resort owners don't always have the experience required to manage a restaurant. Owners are also often attracted by the important cost saving but most importantly the benefit they get from a well established brand is their notoriety, level of quality and well defined standards.

However, at times, it is more cost-effective to conduct a particular business process, rather than outsourcing it. This is why when choosing to outsource one has to make sure to select the brand that fits internal standards and policy to minimize risk of conflicts. When outsourcing terms of agreement should be clearly defined and relative perception clarified.

www.hodema.net